

AGENDA – January 4, 2000 Business Taxes Committee Meeting
Proposed Revisions to Audit Manual Chapter 3, *Audit Working Papers*

Action 1 – Consent Revisions to Audit Manual Chapter 3	Adopt staff's proposed revisions to Audit Manual Chapter 3.
---	---

Action 1 – Consent Item

Item	Comments
Exhibit 1 – Audit Manual Chapter 3 revisions	Adopt staff's proposed revisions. No response or input was received from industry.

Issue Paper Number 99-062



- ☐ Board Meeting
- ☒ Business Taxes Committee
- ☐ Customer Services Committee
- ☐ Legislative Committee
- ☐ Property Tax Committee
- ☐ Technology & Administration Committee
- ☐ Other

PROPOSED REVISIONS TO AUDIT MANUAL CHAPTER 3 AUDIT WORKING PAPERS

I. Issue

Should staff's proposed revisions to Chapter 3, *Audit Working Papers*, be incorporated into the Sales and Use Tax Department's Audit Manual?

II. Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 3 of the Audit Manual, as illustrated in the attached draft of Chapter 3 (Exhibit 1).

III. Other Alternative(s) Considered

Make no changes to Chapter 3.

Issue Paper Number: **99-062**

IV. Background

The Audit Manual (AM) is the State Board of Equalization's (Board) guide for conducting sales and use tax audits. The thirteen chapters contained within the AM incorporate procedures and techniques that have evolved over the years and have been proven to be sound and practical. Field auditors are required to carefully study these procedures and techniques in order to ensure that audits are conducted, and reports are prepared, in a clear and uniform manner consistent with approved audit policies and procedures.

Chapter 3, *Audit Working Papers*, provides general, as well as standardized, guidelines regarding the format and type of information that should be part of the audit report, including the necessary documentation and support for the audit findings, conclusion, and recommendation. The term "audit working papers" represents the worksheets and other related material compiled by the auditor in the course of performing an audit. Audits performed include field audits, revised audits, reaudits, field billing orders, and adjusted field billing orders. Audit working papers serve as an audit trail between the auditor's work and the audit report. The last revisions to Chapter 3 were published in March 1991.

The proposed revisions to Chapter 3, *Audit Working Papers*, of the AM that are recommended for adoption by the Business Taxes Committee will reflect Board-wide policy, even though other departments already follow guidelines specific to their tax or fee program. Therefore, other departments will implement the proposed revisions adopted by the Board unless superceded by existing statutory, regulatory, or Board decisions.

Discussion – Proposed Revisions to Chapter 3

Audit Template Package and Computerization of Field Audit Staff

In working towards its goal of providing a well-qualified staff and state of the art technology, the Board has developed an audit template package to work in conjunction with the Board's integrated database audit program. The purpose of the package is to provide field auditors with custom macros (automated tasks using preprogrammed computer commands) and standardized audit workpaper templates, plus the ability to generate lead (summary) schedules that can be uploaded into the computer system for processing of the completed audit report.

In addition to the audit template package, more standardization has been established for the presentation of audit workpapers. Working papers will be examined by the auditor's supervisor and the auditors in the Centralized Review Section, taxpayers and their representatives, and may be used by appeals attorneys, by Board Members, or as evidence in courts of law. The goal of the proposed Chapter 3 guidelines is to have consistency within the workpapers without infringing on an auditor's judgment as to what constitutes essential information and how it should be presented. Terminology has been updated and more guidance has been provided on the content and format of audit verification comments. All Chapter 3 exhibits have been updated to reflect these changes.

Issue Paper Number: **99-062**

V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 3 of the Audit Manual, as illustrated in the attached draft of Chapter 3 (Exhibit 1).

B. Pros of the Staff Recommendation

- Provides consistency with current policies and procedures.
- Provides consistent guidance in the preparation of Sales and Use Tax audit working papers.

C. Cons of the Staff Recommendation

None.

D. Statutory or Regulatory Change

No statutory or regulatory change is required.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

None.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

Consistent preparation of audit working papers expected to improve taxpayer/customer relations.

H. Critical Time Frames

None.

VI. Alternative

A. Description of the Alternative

Make no changes to Audit Manual Chapter 3.

B. Pros of the Alternative

- None

Issue Paper Number: **99-062**

C. Cons of the Alternative

- Audit Manual Chapter 3 would not be consistent with current policies and procedures.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

None.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

None.

H. Critical Time Frames

None.

Prepared by: Program Planning Division, Sales and Use Tax Department
Current as of: December 17, 1999



PROPOSED REVISIONS TO AUDIT MANUAL CHAPTER 3, *AUDIT WORKING PAPERS*

Staff Recommendation

Staff recommends that the proposed revisions be incorporated into Chapter 3 of the Audit Manual, as illustrated in the draft of Chapter 3 (Exhibit 1 of the issue paper).

Background, Methodology, and Assumptions

There is nothing in the proposed revisions to Chapter 3 of the Audit Manual that would impact revenues.

Revenue Summary

The staff recommendation has no revenue effect.

Preparation

This revenue estimate was prepared by David E. Hayes, Statistics Section, Agency Planning and Research Division. This revenue estimate was reviewed by Ms. Laurie Frost, Chief, Agency Planning and Research Division and Ms. Freda Orendt-Evans, Program Planning Manager, Sales and Use Tax Department. For additional information, please contact Mr. Hayes at (916) 445-0840.

Current as of December 17, 1999

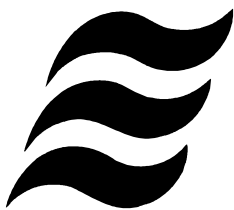
AUDIT MANUAL

Chapter 3

Audit Working Papers

Sales and Use Tax

Sales and Use Tax Department



**STATE BOARD
OF EQUALIZATION**

September 1999

CHAPTER 3

TABLE OF CONTENTS

AUDIT WORKING PAPERS 0300.00

INTRODUCTION 0301.00

Scope of Chapter.....	0301.05
Audit Working Papers Defined and Described	0301.10
General Guidelines for Working Papers	0301.15

WORKING PAPER TECHNIQUES..... 0302.00

<u>Hand Written Working Papers and Pencils</u>	0302.05
Computer Generated Working Papers	0302.07
<u>Standardized Audit Schedules</u>	0302.08
Schedule for Each Subject	0302.10
Data Furnished by Taxpayer	0302.15
Credit Items.....	0302.20
Schedule Headings.....	0302.25
Column Headings.....	0302.30
Totals	0302.35
Subtotals	0302.40
Layout	0302.45
Indexing - General	0302.50
Indexing Summary Schedules	0302.55
Indexing Subsidiary Schedules.....	0302.60
Indexing Memo and Superseded Schedules.....	0302.65
Cross-Referencing	0302.70
Index to Working Papers	0302.75
Arrangement	0302.80
Binding	0302.85

CONTENT OF WORKING PAPERS 0303.00

Basic Data.....	0303.05
Summary or <u>Lead</u> Schedules	0303.10
Subsidiary Schedules	0303.15
Memo Schedules.....	0303.20
Memo of Time of Auditors	0303.25
Memo of Work to Be Done when <u>the Audit is</u> Deferred.....	0303.30

VERIFICATION COMMENTS 0304.00

Comments on Summary Schedules	0304.05
Types of Transactions	0304.10
Source of Data	0304.15
<u>Reporting Method</u>	0304.17
<u>Verification of Audited Amounts and Findings</u>	0304.20
<u>Findings</u>	0304.25
Comments on Subsidiary Schedules	0304.30
<u>Duplication of Comments to Be Avoided</u>	0304.35

TABLE OF CONTENTS (Continued)

MISCELLANEOUS COMMENTS AND NOTES	0305.00
No Record Cases	0305.05
Fluctuation in Sales or Deductions	0305.10
Purchases Subject to Use Tax	0305.15
Purchases Subject to Section 6406 Credit	0305.17
Sales Tax Included in Gross Sales	0305.20
<u>Prepayment of Sales Tax on Motor Vehicle Fuel (MVF).</u>	<u>0305.22</u>
Overpayments.....	0305.25
Tax Errors on Returns	0305.30
Notes	0305.35
Special Explanation.....	0305.40
Dating Entries in Audit Reports and Working Papers.....	0305.50
Sample Working Papers	0305.60

CHAPTER 3

AUDIT WORKING PAPERS

0300.00

INTRODUCTION

0301.00

SCOPE OF CHAPTER

0301.05

It is impractical to make rigid rules covering the arrangement and content of all working papers. Each audit or examination has problems peculiar to it alone, and each auditor has their own ideas as to what constitutes essential information and how it should be presented. Inflexibility in procedures and working papers tends to discourage initiative, whereas it is the aim of the Board is to encourage this type of quality in tax auditors. There are, however, certain features of working papers that can and should be standardized, such as size and type of paper, indexing, cross-referencing, binding and general arrangement of data. This chapter ~~presents~~ addresses those features, together with complete specimen sets of working papers and representative samples of various types of summary and subsidiary schedules.

AUDIT WORKING PAPERS DEFINED AND DESCRIBED

0301.10

The term “audit working papers,” as used in this chapter, ~~represents~~ means the worksheets compiled by the auditor in the course of making a field audit, revised audit, reaudit, ~~or~~ field billing order, or adjusted field billing order, together with other pertinent material. “Other pertinent material” may include letters, ~~telegrams~~ faxes, memoranda compiled by the taxpayer, photocopies of letters ~~furnished by headquarters~~, reproduced copies of pertinent schedules, ~~and~~ information from prior audit working papers, etc.

GENERAL GUIDELINES FOR WORKING PAPERS

0301.15

Working papers serve as the connecting link between the auditor's fieldwork and the audit report, ~~and~~, As such, working papers should contain the evidence accumulated in support of the conclusions and recommendations included in the audit report.

General guidelines for the preparation of working papers ~~follow~~ include:

- a) Completeness and accuracy-Working papers should be complete and accurate in order to provide proper support for findings, conclusions, and recommendations. Working papers also ~~and to enable demonstration document demonstrate~~ of the nature and scope of the examination work, ~~when necessary performed~~. The test of completeness is whether a third party can ~~could~~ review the schedule, understand its purpose, and make use of it, without consulting with the auditor who prepared it.

Working papers will be examined by the auditor's supervisor, and by the reviewing auditors, and may be used by hearing officers, attorneys, Board members, or as evidence in courts of law. They are the basis for recommended determinations and usually serve as a measure of an auditor's experience and judgment.

- b) **Clarity and understandability**-Working papers should be clear and understandable without supplementary oral explanations. The information they reveal should be clear, ~~and~~ complete, ~~but~~ and concise. Anyone using the working papers should be able to readily determine their purpose, the nature and scope of the work done, and the ~~auditor's~~ preparers' conclusions. Conciseness is important, but clarity and completeness should not be sacrificed just to save time or paper.
- c) **Legibility and neatness**-Working papers should be legible and as neat as practicable. ~~Otherwise time will be wasted in reviewing them and in preparing reports.~~ Sloppy working papers may lose their worth as evidence. Crowding and writing between lines should be avoided by anticipating space needs and arranging the working papers before writing. Some simple guides to follow in this respect are:
- ~~(1) Use C~~careful handwriting.
 - ~~(2) The u~~Use of captions to separate subjects. ~~when an audit is completed on a taxable basis or comments are written on the back of Form BT 414 SC, Report of Examination of Records.~~
 - ~~(3) Confining~~ the length of comments on fifteen-column worksheets to approximately six columns.
 - ~~(4) Proper s~~Separation of subject matter properly.
 - Use computer generated working papers to ensure that working papers are legible and neat. (See Section 0302.07 and 0302.08.)
- d) **Pertinence**-The information contained in working papers should be restricted to matters; ~~which~~ that are materially ~~important~~, pertinent, and useful with reference to the audit assignment. The auditor should not copy figures from the taxpayer's books without good reason, but should consider ~~study~~ the audit procedure and method of verification so that only necessary data will be recorded.

AUDIT WORKING PAPERS

WORKING PAPER TECHNIQUES

0302.00

PAPER AND PENCIL HAND WRITTEN WORKING PAPERS

0302.05

Although infrequent, hand written Schedules prepared by the auditor will be written on paper furnished by the Board. Only one side of the paper will be used.

Schedules will be prepared ~~with a pencil~~, by using a black, medium-hard grade, approximately No. 2 ~~1/2~~ pencil. The use of red pencil is permitted for special purposes such as cross and source referencing. Blue pencil will be restricted to the use of the ~~District Reviewers~~ Centralized Review Section.

Computer generated schedules should be prepared using 14" x 11" or 8 1/2" x 11" paper. Only one side of the paper will be used. Schedules on 8 1/2" x 11" paper should not be printed in 'landscape' format.

COMPUTER GENERATED WORKING PAPERS

0302.07

Computer generated schedules can be prepared by using 8" x 11, 8 1/2" x 14, 14" x 11" or 11" x 17" paper. If available, 11" x 17" paper may be used instead of using 8 1/2" x 14" paper which is inserted sideways in the audit. Only one side of the paper will be used. Schedules on 8 1/2" x 11" paper should not be printed in "landscape" format.

Audit working papers that are prepared by using a personal or state provided computers must conform to the working paper standards set forth in this chapter. These schedules must include the same information, comments, and referencing required for audit working papers in general.

There are four main areas that should be included on all computer-generated schedules and templates. They include:

- 1) Schedule number, page number, account number, auditor name and date in the upper right hand corner.
- 2) Column references: "A" thru— "OH" left to right at the top of each regular template (if more space is needed may be less than "H") column, "A" – "P" for the exempt sales template, and "A" - "S" for the paid bills template. Additional columns may be added as necessary.
- 3) Line numbers references down the left-hand side of the schedule body.
- 4) A general referencing line (below above the column headings) and a general reference column (left hand column).

~~Detailed guidance is contained in the P C Field Audit Guide.~~

STANDARDIZED AUDIT SCHEDULES

0302.08

The following standards should be followed when audit schedules are prepared either in Excel or Access and should be followed, where appropriate, when audit schedules are hand written.

- 1) **Font.** The font used will be either **Arial, Times Roman, or Courier New**. The entire audit should be prepared using the same font. Minimum font size is 10.
- 2) **Scaling.** Print Scaling can be done for subsidiary and lead schedules. **Print Scaling will not be less than 70% (68% for Exempt Sales Test)** of the original size of the document.
- 3) **Schedule Orientation.** Lead schedules should be printed in portrait form whenever possible. Subsidiary schedules can be prepared in either portrait or landscape form. When subsidiary schedules are prepared in landscape form, the schedule heading will be oriented to the right in the audit report. The schedule (on legal-size paper) will be hole punched in the lower left corner to ensure the proper orientation.
- 4) **Database Schedules.** Database schedules (i.e. schedules detailing tests of sales and purchases) can be printed with grid lines. Database schedules must be printed with bottom borderlines. All schedules must contain line numbers. Line numbers should not start with "1" on each successive page of the same schedule. In this manner, every line number will identify each scheduled item on which page it is located (e.g., page 1 numbered 1 thru 30, page 2 numbered 31 thru 60, page 3 numbered 61 thru 90, etc.).
- 5) **Paper Size.** Lead schedules will be prepared on Letter Size (8 ½" x 11") or Tabloid Size paper (11" x 17"). Legal Size (8 ½" x 14") paper is acceptable for lead schedules if they are computer generated schedules (since field printers use this size paper). Subsidiary schedules can be printed on the paper sizes mentioned in previous section (e.g., letter size, tabloid size, legal size, etc.)
- 6) **Schedule Titles.** All schedules should have titles that accurately describe the contents of the audit working paper.
- 7) **Top Right Corner.** All schedules will have a schedule number, page number, account number, auditor name and date in the upper right hand corner. Hand written schedules using 15-column paper should have the same information mentioned above in the upper right hand corner of the left half of each sheet.
- 8) **Page Totals.** Page totals are always required for all schedules. Page totals will either appear at the bottom of each page or, in the case of computer generated schedules, may be placed on a separate page via a pivot table. (A pivot table is a special kind of table that summarizes information from particular fields of a list or database.) A grand total is always required for all schedules. Grand totals should match the summary by page total and the summary by quarter (or period) total.
- 9) **Schedule Footer.** Schedules generated via Excel should include a footer indicating and appearing as follows:

"Copy to Taxpayer"

"Date: _____"

Schedules will be prepared with the following information, when applicable. Pertinent information for “Test of Claimed Exempt Sales” and “Purchases Subject to Use Tax” is listed below and illustrated in Exhibits 2 and 5.

<u>Column</u>	<u>Test of Claimed Exempt Sales</u>
<u>A</u>	<u>Invoice Date</u>
<u>B</u>	<u>Invoice Number (and/or Ref Number)</u>
<u>C</u>	<u>Customer Name</u>
<u>D</u>	<u>Street</u>
<u>E</u>	<u>City, State, Zip</u>
<u>F</u>	<u>Ship to</u>
<u>G</u>	<u>PO Number</u>
<u>H</u>	<u>PO Status</u>
<u>I</u>	<u>Item (& quantity)</u>
<u>J</u>	<u>Amount Questioned</u>
<u>K</u>	<u>Amount Taxable</u>
<u>L</u>	<u>District Measure</u>
<u>M</u>	<u>District Code</u>
<u>N</u>	<u>Comments (e.g., Resale Card on File)</u>
<u>O</u>	<u>XYZ Sent</u>
<u>P</u>	<u>1164 Sent</u>

<u>Column</u>	<u>Purchases Subject to Use Tax</u>
<u>A</u>	<u>Invoice Date</u>
<u>B</u>	<u>Invoice Number (Ref Number)</u>
<u>C</u>	<u>Vendor</u>
<u>D</u>	<u>Street</u>
<u>E</u>	<u>City, State, Zip</u>
<u>F</u>	<u>Ship from point (State designator)</u>
<u>G</u>	<u>Ship to</u>
<u>H</u>	<u>PO Number</u>
<u>I</u>	<u>PO Status</u>
<u>J</u>	<u>Resale Cert. Issued (Y/N)</u>
<u>K</u>	<u>Item (quantity)</u>
<u>L</u>	<u>Amount Questioned</u>
<u>M</u>	<u>Amount Taxable</u>
<u>N</u>	<u>District Measure</u>
<u>O</u>	<u>District Code</u>
<u>P</u>	<u>Comments- Account posted to (include chart of accounts if only account number is used)</u>
<u>Q</u>	<u>ABC Sent</u>
<u>R</u>	<u>1032 Sent</u>
<u>S</u>	<u>1164 Sent</u>

(Cont.) 0302.08

If additional information is required, specific columns and appropriate headings can be added to the appropriate part of the schedule. This may cause the schedule to exceed the allowable print space available on legal size paper and would therefore necessitate that these schedules be printed on tabloid size paper (11 inches by 17 inches). Also note that additional linking fields can be added to the database, however, they do not need to be printed, unless the information is pertinent to the audit.

SCHEDULE FOR EACH SUBJECT

0302.10

Every subdivision of the audit working papers is assigned an index number, which is used in arranging the schedules when the audit is completed. *Each schedule supporting a different category of sales or deductions, or self-consumed merchandise, will be written up on a separate sheet. Unrelated data should not be put together on one schedule.* This is true even though only a few lines may be required to record the desired information. The cost of preparing separate schedules is insignificant when compared with time wasted in looking for data ~~which are~~ buried in a schedule relating to some other subject. The only exception of combining data to what is said above occurs when Form ~~BTBOE~~ 414-C, Report of Examination of Records, is used as a working paper schedule for two or more items verified as having been correctly reported although a deficiency or credit is recommended as to other items covered by an audit. Use of 8 1/2" x 11" computer paper or seven-column paper for verification comments in lieu of a ~~BTBOE~~ 414-C is permissible only in those instances where there is insufficient space on the form.

DATA FURNISHED BY TAXPAYER

0302.15

Taxpayers should be encouraged to furnish data, which may be on their own paper or on disk, ~~and~~ The taxpayer-provided schedule should be identified as "having been prepared by the taxpayer." *Such data should have proper headings inserted, be indexed, cross-referenced, and filed with the regular working papers.* Unless unusual circumstances warrant, taxpayer-furnished material should not be manually copied but should either be incorporated directly into the audit working papers or ~~reproduced~~, photocopied.

If paper on which such data is placed is larger than our 17" x 11" work-sheets, it will be folded. If considerably smaller, it will be affixed on an 8 1/2" x 11" work-sheet.

CREDIT ITEMS

0302.20

Credit items, or items which are opposite in sign to other entries on a schedule, will be written with a minus (-) sign in front of the number. For hand written schedules, a black pencil preceded by a minus sign (-) in black pencil in front of the number will be used. The common method of writing such items in red must not be used because red figures cannot be distinguished from black when photocopies are made. Decreases in taxable measure should be preceded by a minus sign (-) on all summary schedules.

SCHEDULE HEADINGS

0302.25

The name of the Taxpayers name should not appear on either subsidiary or summary schedules unless necessary for the identification of a non-permitized retailers. The title will be inserted on the second line of each schedule describing the type and source of information contained therein, such as Total Sales per General Ledger, Test ~~Check~~ of Sales for Resales, etc.

(Cont.) 0302.25

If the schedule refers to some definite period such as month, quarter, or year, this period will appear under the title of the schedule (third line) on the second line as shown in the following example:

Test ~~Check~~ of Sales for Resale per Invoices ~~July, 19XX~~

July, 19XX

All schedules will have a schedule number, page number, account number, auditor name, and date in the upper right hand corner.

In the upper right hand corner of each sheet of Form BT 607, or the upper right hand corner of the left half of each sheet of Form BT 615, the following information will be filled in: District account number, auditors initials, and date schedule was prepared.

COLUMN HEADINGS**0302.30**

Space provided for column headings is small so; headings must be short but descriptive. If it is not ~~impossible~~ to write in a sufficient description information in the column space provided, an asterisk or other mark should be placed at the end of the description; A referring asterisk mark should be to a similar mark at the bottom of the schedule, with where a complete description should be given. Unless handwriting is small and legible, column headings will be printed. The reference line should indicate ~~in red~~ the source of data in that column, using <angle brackets> for data from other schedules e.g., <B12A-1> and (parentheses) for arithmetic computations e.g., (A+B-C).

TOTALS**0302.35**

Where a schedule lists two or more columns or classifications, vertical footings and cross-footings (horizontal) will ~~may~~ be made and the grand totals balanced with each, as illustrated in the following example:

Analysis of Sales					
		<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
ref		<u><Per</u>	<u>Sales</u>	<u>Journal></u>	<u>(A+B+C)</u>
	<u>Period</u>	<u>Taxable</u>	<u>Resale</u>	<u>Freight</u>	<u>Total</u>
1	January, 19XX	\$500	\$400	\$100	\$1,000
2	February, 19XX	600	500	200	1,300
3	March, 19XX	700	500	300	1,500
4	<u>1Q-9X Total</u>	<u>\$1,800</u>	<u>\$1,400</u>	<u>\$600</u>	<u>\$3,800</u>
5					<u><414-A-1></u>

Footings and cross-footings should not be made unless they are clearly of value in the audit. The total may be shown either on the right or left side, depending upon use to be made of the data and convenience in compiling. Hand written schedules using If the schedule has been set up in a single space form (using every line filled); will a line will be skipped a line before inserting the total. Hand written schedules using double spacing (every other line filled) will not skip a line before inserting a total. All schedules

(Cont.) 0302.35

(hand written and computer generated) will underline ~~The last line of data will be underlined~~ with a single black line, and the total will be underlined with a double black line. ~~If double spacing (every other line) is used for compiling the data, a second line will not be skipped before inserting the total.~~ *When a schedule is hand written and composed of two or more sheets which requires a grand total, a page total will be placed at the bottom of each sheet. A summary of by-page numbers totals, computing showing the grand total, will be prepared in one of the following ways:*

- a. If the hand written schedule consists of a few pages; and sufficient space is available on the last sheet, page totals for the preceding pages may be entered under the page total for the last sheet, and a grand total computed.
- b. If the hand written schedule consists of a large number of pages, a separate sheet showing the summary of page totals, showing a grand total, should be prepared, ~~on a separate sheet.~~ This summary sheet should then appear as the first page of the schedule, followed by the pages containing supporting details.
- c. Computer generated schedules with multiples pages may place page totals on a separate page via a pivot table.

To maintain the integrity of the database, the data will be scheduled without skipping a line for computer generated schedules.

SUBTOTALS

0302.40

Hand written ~~S~~subsidiary schedules often are set up by months with subtotals every three months showing quarterly totals. To improve the appearance and legibility of ~~such subsidiary~~ schedules, the first month of the first quarter should be entered on the second line below the space for column headings with quarterly totals shown on the first heavy line; the first month of the second quarter should be shown on the second line after the first heavy line, and so on. In this manner, quarterly totals will always be shown on the heavy lines.

Subtotals for other types of data should be set off by single lines whenever possible. ~~(See Exhibit 4).~~

LAYOUT

0302.45

The auditor should set up the most efficient mechanical arrangement possible before the compilation of data is started. This avoids transcribing figures from taxpayer books before the correct arrangement of a schedule has been decided upon, with the result that the worksheet must be discarded when its defects have been disclosed. Time may be saved by setting up several proposed layouts with column headings on scratch paper, columns being numbered from 1 to 7, or from 1 to 15, and inserting some sample entries before deciding on a final layout.

If dates, or months and quarters, are to be shown in a left-hand column, sufficient columns should be provided for horizontal expansion; that is, there should be a column for each type of classification with blank columns for possible additional classifications not yet disclosed. When there are insufficient columns for the proper horizontal spread, the months should be placed across the top and the classifications shown on lines, with blank lines left in the proper places for vertical expansion. In many cases when the columns on one sheet are not sufficient, the schedule must be broken into two sheets. If there is sufficient space on a schedule, lines should be skipped between subsections and totals. This sets

(Cont.) 0302.45

the information out and makes it easier to read. Where there are only a few entries on the sheet, every other line should be used for recording data. Again, to maintain the integrity of the database and to facilitate the use of a pivot table, no lines should be skipped when using a computer generated schedule. The spreadsheet can always be expanded to include additional columns and/or rows.

INDEXING-GENERAL

0302.50

A standard system of indexing working papers is desirable. Although there are many indexing plans, a system based on line numbers shown on tax returns has been adopted for indexing schedules of business tax audits.

INDEXING SUMMARY SCHEDULES

0302.55

Summary schedules will bear the line numbers appearing opposite the corresponding items on tax returns. The following summary schedule indexing systems will be used for sales and use audits:

Total Sales Basis Only (Exhibits 7 to 36):

Schedule 1.	Total Sales
Schedule 4.	Sales for resale
Schedule 5.	Food Products
Schedule 6.	Nontaxable Labor
Schedule 7.	Sales to U.S. Government
Schedule 8.	Interstate Sales, Etc.
Schedule 9.	Sales Tax Included
Schedule 10.	Other Exempt Transactions

Taxable Measure Basis Only (Exhibits 37 to 65):

Schedule 12.	Taxable Measure
--------------	-----------------

Either Total Sales or Taxable Measure Basis:

Schedule 2	Purchases Subject to Use-Tax
Schedule 15.	Purchases Subject to Local Tax
Schedule 16.	Taxable Measure — Local Tax
Schedule 20	Section 6406 Credits
Schedule A8.	Taxable Measure — District Tax - (Name of District)
Schedule A8.1 to A8.X	To be used when adjustments are made to more than one district tax)
Schedule A8.2	
Schedule G2	Sales Tax Paid to d Distributors and Brokers (Gasoline Sellers)

Schedules for audits made on a taxable measure basis will be numbered as Schedule 12, which corresponds with the line number reporting the measure of tax on a return. However, self-consumed items and purchases subject to use tax should be identified separately in the analysis of differences on audit schedules and audit reports ~~as illustrated in Exhibit 34~~. This provides a clearer analysis of the proposed measure of tax on Form ~~BTBOE-414-A~~. As an alternative, self-consumed items and purchases subject to use tax may be included on Schedule 2, and taxable sales differences on Schedule 12. Schedules in interdistrict cooperative audits will precede the schedule number with the identifying letters (e.g. AB, CH, FH) of the district preparing the schedule. ~~(See APMG 2306.55).~~

Schedule 16 will be prepared only when the state and local tax adjustments to reported amounts are different. Since such differences will occur infrequently, it is anticipated that most audits will not require a Schedule 16.

Schedule A8 will be prepared only when the state and district tax adjustments to reported amounts are different. When adjustments to reported amounts are different for state and district taxes, a separate district tax summary schedule must be prepared for each district where audited differences are noted. ~~For example, if the audit included BART, LACT, and SCTA, and the audit disclosed additional taxable measure for BART and LACT, two summary schedules will be prepared; one for BART (A8.1) and one for LACT (A8.2.) A summary schedule should not be prepared for any district tax, which does not involve adjustments to reported amounts. In addition, two separate summary schedules are not required for districts that impose two 1/2% (1% combined) district taxes.~~

If only one district tax summary schedule is required, the schedule should be indexed as A8. If more than one district tax summary schedule is required, the schedules will be indexed as A8.1, A8.2, A8.3, etc., to include all district taxes for which summary schedules are required. The indexing system does not identify a particular A8 summary schedule to a district; therefore, the name of the district should be identified in the schedule heading.

All district tax summary schedules will be prepared on a taxable measure basis irrespective of whether the remainder of the audit was conducted on a total sales basis.

Both Schedule 16 and Schedule A8 summarize all of the differences to the measure of tax and are the sources for the measure of tax on Form BT-414-A1. ~~See Exhibits 24 and 27.~~

~~All schedules for Use Fuel Tax audits will follow the same concept for indexing and will be indexed based on the line numbers appearing opposite the corresponding items on the Use Fuel Tax returns.~~

There shall be no deviation from this system of indexing.

INDEXING SUBSIDIARY SCHEDULES

0302.60

Subsidiary schedules which directly support summary schedules will bear the same capital letter index numbers as the summaries followed by a dash and numeral ~~capital letters~~, i.e. 12A-1, 12A-2, 12B-1, 12C-1, 12D-1, etc. i.e., ~~1A, 1B, 1C, 2A, 2B, 2C, etc.~~ Subsidiary schedules supporting other subsidiary schedules will bear the same capital letters followed by a dash and the same numerals ~~numbers as the schedules which they support, followed by a dash and numeral~~, i.e. 1A-1, 1A-2, 2A-1, 2B-1, followed by additional subsidiary schedules will be indexed by adding small letters, i.e., 12A-1a, 12A-1b, 12A-2a, 12B-1a. An example of the complete indexing system is as follows:

Schedule 12 — (Lead Schedule, Summary of Taxable Total Sales Measure Understated/Overstated)

Schedule 12A — (Summary Schedule of First Tax Difference subsidiary)

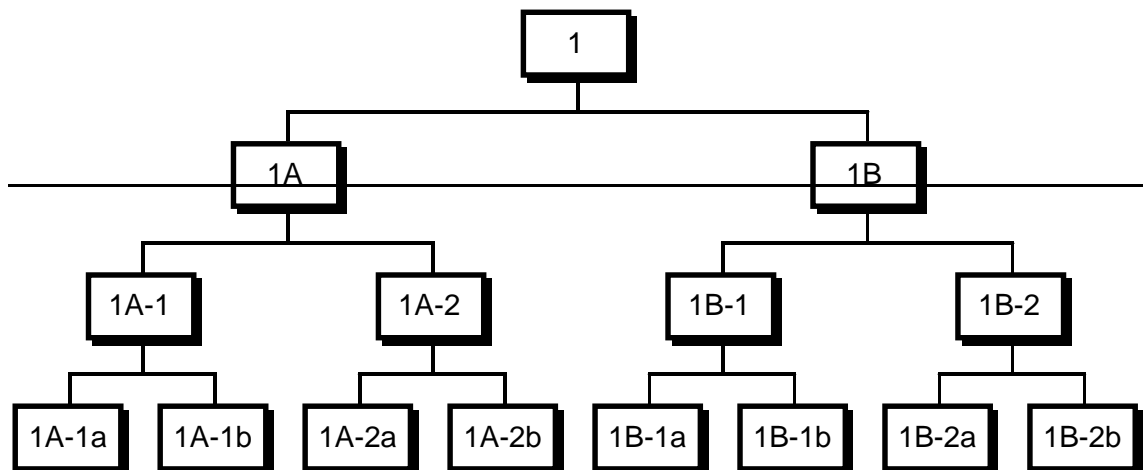
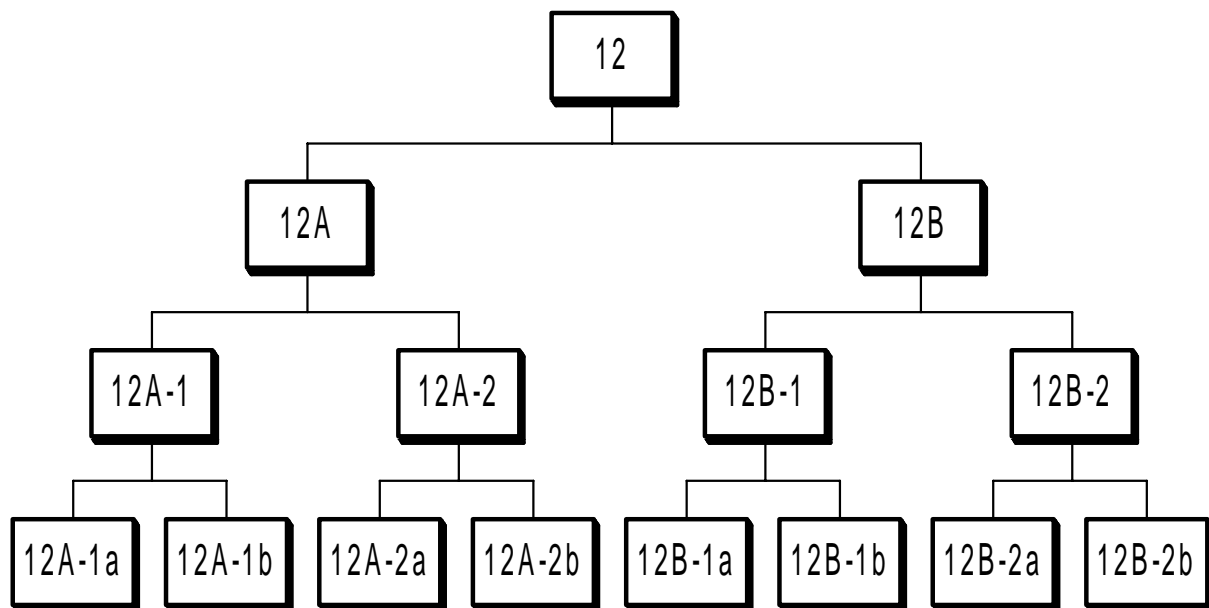
Schedule 12A-1 — (Subsidiary Schedule for First Tax Difference)

Schedule 12A-1a — (Subsidiary for Subsidiary Schedule for First Tax Difference)

Schedule 12B — (Summary Schedule of Second Tax Difference)

Thus, the schedules should be laid out as indicated by the following chart:

Layout and Assembly of Schedules



(Cont.) 0302.60

It is not good practice to subdivide subsidiary schedules too finely. Often page numbers may be used to designate subdivisions; for example, if a number of pages are used to accumulate data which are summarized on the first sheet, the whole series should be assigned the same index number with pages numbered from 1 up, as follows:

Schedule 4A Page 1 of 3 Recap.	(Questioned Sales for Resale)
Schedule <u>412A</u> Page <u>21</u> of 3 June 19X1 _____	(Questioned Sales for Resale)
Schedule <u>412A</u> Page <u>32</u> of 3 Oct. 19X2_	(Questioned Sales for Resale)
<u>Schedule 412A Page 3 of 3 Page Total Summary</u>	(Questioned Sales for Resale)

When indexed in this manner, the schedule should be cross-referenced as 412A-pg. 1, not 412A-1, which refers to a subsidiary schedule supporting Schedule 412A.

If there is only one page to a subsidiary schedule, ~~the a dash should be placed opposite the caption "Page;"~~ does not require numbering, but if more there is more than one exists, the pages should be numbered from 1 up, as follows: 1 of 6, 2 of 6, 3 of 6, etc.

Subsidiary schedules to audits made on the total sales ~~axable measure~~ basis; ~~"sales and use tax,"~~ will be indexed as follows:

Schedule 12	(Summary or Total Sales Taxable Measure)
Schedule 12A	(Subsidiary)
Schedule 12A-1	(Subsidiary)
Schedule 12A- <u>21a</u>	(Subsidiary)

INDEXING MEMO AND SUPERSEDED SCHEDULES

0302.65

Memo schedules will be marked "Memo" above the caption "Page," and should be numbered from 1 up, in the space opposite the caption "Schedule." Superseded schedules will be marked "Superseded" diagonally across the body of the sheet. (Section 0302.80)

CROSS-REFERENCING

0302.70

Cross-referencing is necessary to facilitate tracing figures back to the underlying schedules; and ~~also~~ to aid in tracing subsidiary schedules forward to the summaries. It greatly assists the reviewing auditors and hearing officers; and ~~although particularly valuable in large complicated audits,~~ should be used in small audits as well.

Examples of the method by which cross and source references are to be made are shown on the schedules in the various exhibits.

INDEX TO WORKING PAPERS

0302.75

An audit report will contain an index ~~that~~^{which is} ~~will be~~ prepared on Form ~~BT~~^{BOE}-495, Index to Working Papers, whenever five or more lead and subsidiary schedules are prepared for an audit. See Exhibits 8 and 37. ~~(See Exhibits 2 and 30)~~

A very large set of audit working papers is sometimes bound together in sections with an index of schedules prepared for each section, and is often marked with tabs for each main section.

Note: ~~In the In Exhibit 2 and 30,~~ Index to Working Papers, dashes rather than page numbers, are shown in the Page Number column for schedules that contain only one page. For schedules consisting of more than one page, the number of pages are shown in the Page Number columns as 1-2, 1-4, 1-10, etc.

ARRANGEMENT

0302.80

All schedules and exhibits will follow the pertinent schedules to which they relate. Other papers, such as letters, superseded schedules and exhibits of general nature, will be identified as memo schedules, and placed at the back of the audit. Audit working papers should not reference memo schedules. A schedule important enough to be referred to in the audit working papers should be included as a regular schedule directly behind the schedule to which it relates (e.g., XYZ letters, resale certificates, etc.).

The entire file will be carefully lined up on the top and left edges. These sheets should be bound together. A hole to receive the paper fastener, approximately 3/16" in diameter, will be punched in the upper left-hand corner of all papers in such a position that all writing will remain clearly visible.

CONTENT OF WORKING PAPERS

0303.00

BASIC DATA

0303.05

The basic data to be shown on subsidiary schedules should be carefully considered. Figures and other data should not be copied from the taxpayers records without thought given to their significance or ultimate use. On the other hand, all data which could be used in the section under consideration, as well as in other sections of the audit, should be recorded while the documents are being examined so that there will be no necessity for pulling them again; i.e., names, dates, invoice numbers, descriptions of items, points of origin, shipping data, district, and accounts charged should be recorded if any possible use is foreseen. In many cases, certain reference data are required by the taxpayer in examining the schedules for correctness, and if such information is not on the schedule, much time is lost while the taxpayer secures the desired documents and makes the examination.

SUMMARY OR LEAD SCHEDULES

0303.10

Summary (also sometimes called lead) schedules represent the final recapitulation of audited and reported figures, differences and analysis of differences, and are prepared for each main section of the audit where there is a difference between the audited and reported figures. They are the basis for transcribing net differences per audit to "Summary of Differences" on Schedule 414-A2 or Schedule 12. (See Exhibit 1).

SUBSIDIARY SCHEDULES

0303.15

Subsidiary schedules support summary or other subsidiary schedules. The information shown thereon this schedule is an analysis of the data shown in total, or by quarters, on the summaries and usually consists of compilations by months to compute quarterly totals, compilations by days, items, or other classifications to determine monthly totals, or data to support calculations of percentages. Adding machine tapes may be included in audit work papers in lieu of listing the figures on a schedule *as long as the auditor provides an audit trail to the taxpayer's documents. Tapes should be attached to a seven-column work paper and be displayed so totals are visible.* The basis for computing audited figures are recorded on these schedules, e.g., monthly totals from the sales account, individual sales from the cash receipts book, list of individual sales from sales invoices used for test checks, lists of individual purchases from purchase invoices used for computing use tax liability. In a sense, subsidiary schedules are the most important worksheets of the audit since all essential detailed information is compiled thereon. The data should be so complete that an auditor who did not assist in compiling it could, nevertheless, interpret the results, make the required calculations, or prepare summary schedules.

MEMO SCHEDULES

0303.20

Some examples of memo schedules are as follows:

1. BOE-624A & B that includes:
 - (a) List of auditor(s) and time ~~spent of each~~ by days.
 - (b) Names of principal officers and employees of the taxpayer.
 - (c) List of records and information relative to same.
 - (d) Questions compiled during course of the audit to be taken up with supervisor. ~~Audit program.~~

This is always the very last memo schedule.

~~—(e)—Questions compiled during course of the audit to be taken up with supervisor.~~

2. Audit program (BOE-472)- This is always right in front of the BOE-624s (next to last memo).
3. ~~(f)-Miscellaneous data- including:~~
 - (a) ~~(g)~~Copy of BT-1164's and BOET-1032's prepared (required)
 - ~~(h) Copy of BT-1151's~~
 - (b) Copy of letters to and from taxpayers.

In many cases, the information contained in these schedules has an important bearing on the audit, and they should be carefully preserved.

Memo schedules, however, do not include schedules or materials that have a direct bearing on other audit schedules or findings (i.e. "XYZ" letters, taxpayer prepared schedules, etc.). Such schedules should be included as part of the audit working papers and indexed as schedules accordingly (e.g., 12A-1, 12B-1a, etc.).

MEMO OF TIME OF AUDITORS

0303.25

When more than one auditor is engaged on an audit, which requires considerable time to complete, the auditor in charge may prepare a memo schedule to which they should post daily time. The names of the auditors should be shown in the column headings, and dates in the extreme left-hand column. This record must agree with the time reported on Form BOET-609-A, Auditors Time Report, Form BOET-610, Auditors Monthly Report, Form BOET-666, Employees Summary Time Report, and on the reverse side of Form BOET-414-A, Report of Field Audit.

MEMO OF WORK TO BE DONE WHEN THE AUDIT IS DEFERRED

0303.30

It is sometimes necessary to defer a partially completed ~~an audit when partially completed~~ to allow the taxpayer time to secure additional information. *In such cases, a memo should be prepared in duplicate outlining the work to be done by the taxpayer, and the approximate date of the auditor's return to the job.* The taxpayer should be given the original copy of this memo. Notes regarding the work completed and the work remaining to be done can be placed on the duplicate copy of the memo which will be placed on the top of the file of working papers for future reference when the auditor returns to the job. *Whenever completion of an audit is deferred to accommodate a taxpayer, the auditor may need ~~should~~ to secure a Form BOET-122, Waiver of Limitation ~~Period~~, unless it is certain that failure to do so will not in any way jeopardize the interests of the State. (See Section 0215.0015 for guidance on when to request a waiver.)*

VERIFICATION COMMENTS

0304.00

COMMENTS ON SUMMARY SCHEDULES

0304.05

General verification comments are to be written on summary schedules. Specific comments on detailed verification should be made on subsidiary schedules. (See Section 0304.30.) The comments should be clear, specific, and concise. They should be written in an orderly manner stating simply the nature of the transactions, the records examined, the taxpayer's method of reporting, the audit approach, and the result, or audit findings. ~~Many auditors find it helpful in organizing comments to use caption headings. An example of the use of captions that should be used in all audits is illustrated below in Sections 0304.10 to 0304.20.~~

TYPES OF TRANSACTIONS

0304.10

Under this heading, the auditor very briefly gives a description of the taxpayer's business and the types of transactions encountered in the audit~~which give rise to the items reported~~. Example: Assuming ~~the an~~ audit is of a furniture manufacturer, ~~under the heading "Total Sales" Summary schedule comment might read:~~

~~"The~~is ~~manufacturer taxpayer is a manufacturer, repairers, and reconditioners of furniture. Also, the taxpayer manufactures custom furniture made from resale inventory as well as customer supplied material."~~as well as manufactures custom built furniture to buyer specifications from their own or customers material."

~~Under this heading for the same manufacturer, the comment on the sales for resale lead schedule might state: Majority of sales for resales is to retail furniture dealers. Occasional quantity sales are made to hotels, apartment houses, banks, and other commercial users, as well as some sales to employees.~~

SOURCE OF DATA

0304.15

Under this heading, the auditor indicates ~~briefly what the documents and or books of records that were available for examination and the period for which the documents and records exist, examined in order to ascertain the correctness of the finding on that class of transactions.~~ In the case of the furniture manufacturer this the following comment might read: ~~would be satisfactory:~~

"Source data consisted of customer purchase orders, sales invoices, sales journals, monthly profit and loss statements, and general ledger. All records were complete and available for the entire audit period. Franchise Tax Returns were available for calendar years 1998, 1999, and 2000."

This heading would need to be modified if the taxpayer did not provide any records during the audit period.~~Gross Sales Summary Schedule.~~

~~Total sales scheduled from sales journal.~~

~~General ledger account not used since amounts shown therein were net of returns and allowances. Sales invoices available.~~

~~On the Sales for Resales Summary Schedule the comment might be:~~

~~Schedules from sales journal as adjusted, per test (see Schedule 4A)~~

REPORTING METHOD

0304.17

Under this heading, the auditor provides a brief description as to how the taxpayer reports his/her sales as well as purchases subject to use tax on the sales tax return. The comment should indicate whether the taxpayer nets any sales and if sales tax is included in reported total sales (Line 1 of return). Assuming the same furniture manufacturer, this comment might read:

“The taxpayer reports total sales, ex-tax, on line one and claims sales for resale and repair labor on lines four and six respectively. Recorded sales tax is reconciled to sales tax paid and the reconciliation work sheet is attached to the tax return. The taxpayer did not report any purchases subject to use tax.”

This heading may be omitted if the taxpayer did not report to the Board since this would be obvious from other information.

VERIFICATION OF AUDITED AMOUNTS AND FINDINGS

0304.20

Under this heading, the auditor briefly summarizes/recapitulates the verification performed and explains what was found and why it is considered to be either taxable or not taxable. The subheadings under this section should be relevant to the items examined and noted in the audit (Tax Accrual Reconciliation, Total Sales, Purchases Subject to Use Tax, etc.) The auditor will need to modify the subheadings in this section to areas examined in their audit.

Comments should be meaningful and necessary. For example, the statement “Findings”- None is unnecessary and should be avoided. If it is obvious from the schedule that there are no differences, this heading should be omitted.

Under the Total Sales Summary of the furniture manufacturing company, the this comments might read: “Sales invoices were tested and traced to the sales journal for the period January 1997, and August 1998, and the sales journal footings were tested and traced to general ledger for the audit period. Reported total sales were reconciled to total sales per the general ledger and Franchise Tax Returns for years 1998, 1999, and 2000. No errors/sales in addition or differences were noted. Total reported sales were accepted by the auditor.” to those, per sales journal, were noted. Audited sales are total sales before deductions for returns and allowances. The difference established represents netted returns and allowances (see Schedule 10).”

Under the Sales for Resale lead summary schedule, the following Verification and Findings comment would satisfactorily explain the verification and findings: might read:

“Recorded sales for resale per the sales journal were reconciled to claimed resales for the audit period. No differences were noted. “Recorded sales for resale for December, 19XX were tested. December 19XX was selected based on a conversation with the taxpayer who indicated this period accurately represented sales for resale for the audit period. All sales for resale invoices for December 19XX were examined and traced to available to sales invoices and resale certificates. All allowed sales for resale were supported by resale certificates. The resale certificates were verified as taken in good faith, signed by and bearing valid sellers' permit numbers, and of signed by purchasers in the business of selling furniture. 20% of December 19XX recorded sales for resale were not supported by resale certificates or valid XYZ responses. The 20% rate of error was applied to claimed resales for the audit period. See Sch. <12J-1> for additional information.” claimed amounts were disallowed as representing retail sales to consumers, per test of December, 19XX.”

~~Verification comments should explain the verification performed on all areas considered in the audit. This includes verification of transactions and amounts that were accepted as reported as well as the differences noted.~~

COMMENTS ON SUBSIDIARY SCHEDULES

0304.30

Subsidiary schedules should have brief comments written near the bottom, unless the information is self-evident from columnar headings; or is covered in the “~~R~~emarks” columns or by other notations. Subsidiary schedule comments should not be the same as comments on the summary schedules. It is important for the auditor to remember that over-all verification comments are for the summary schedules and specific verification comments are for the subsidiary schedules. The information contained on these subsidiary schedules should show:

- *Source of data and a brief description of nature of same.*
- *Extent of verification.*
- *Basis of estimating where estimates are used.*
- *Method of calculating percentages.*
- *Explanation of differences between reported and audited figures if not shown on Remarks column.*
- *Any other comments pertinent to the method of reasoning used to determine the facts and figures shown on the schedule.*

DUPLICATION OF COMMENTS TO BE AVOIDED

0304.35

~~It is unnecessary and undesirable to write the same comments on both summary schedules and subsidiary schedules. This can be avoided if the auditor remembers that over all verification comments are for the summary schedules; specific verification comments for the subsidiary schedules.~~

~~It should be kept in mind that the suggested comments under the foregoing headings are for illustrative purposes only. What is needed is the independent professional judgment of the auditor as to types of transactions; where they were found, how they were verified, and what the results of such verification were.~~

~~The verification comments mentioned above should not be used in a manner that will lead to duplication or the unnecessary recording of meaningless comments. For example, it would be useless to state merely: “Sales for Resale” under “Types of Transaction,” or write “Findings None,” where it is obvious from the schedule that there are no differences between audited and reported figures. *In any particular case, where any one of the headings is not pertinent to meaningful comments, such heading should be omitted.*~~

AUDIT MANUAL

MISCELLANEOUS COMMENTS AND NOTES

0305.00

NO RECORD CASES

0305.05

In cases where records are incomplete or non-existent, it will be necessary to estimate the tax liability based upon the most reliable information the auditor can obtain. *In these instances, the comments should be very complete and should indicate clearly the method used in estimating the tax liability, why a particular method was used in preference to some other, and any additional factors tending to confirm the correctness of the auditor's estimate of the tax liability.*

FLUCTUATION IN SALES OR DEDUCTIONS

0305.10

Verification comments **should always** include an explanation of abrupt fluctuations in sales, markups, or in any of the deductions claimed by a taxpayer.

PURCHASES SUBJECT TO USE TAX

0305.15

Comments under this caption should indicate whether purchases subject to use tax were properly reported.

Comments should always show the general location of the supplier's business. The comments should be particularly clear and complete in those instances where the purchases subject to use tax were made from a California retailer. Any major purchases reported should be fully described on the subsidiary schedule where such purchases are listed. (See Section 0401.20 and 0408.22).

PURCHASES SUBJECT TO SECTION 6406 CREDIT

0305.17

Section 0208.154 defined Section 6406 Credit and noted how headquarters records this credit on Form ~~BTBOE-414~~. ~~If the audit report recommends a penalty for negligence, failure to file, or fraud, offset credit interest and credit penalty will be allowed when computing Section 6406 Credit. Reference is also made to Chapter 2, Exhibits 13 and 14, and Chapter 3, Exhibit 68, showing the method of handling the credit in an audit. (See Section 0419.20 for further information.)~~

Comments under this caption should indicate if the credit was properly claimed. Differences noted in the audit should be explained.

SALES TAX INCLUDED IN GROSS SALES

0305.20

Whether a retailer may add sales tax reimbursement to the sales price of the tangible personal property sold at retail to a purchaser depends solely upon the terms of the agreement of sale. Certain presumptions concerning the addition or inclusion of sales tax reimbursement are created by Civil Code Section 1656.1. See Regulation 1700(a)(1)&(2).

PREPAYMENT OF SALES TAX ON MOTOR VEHICLE FUEL (MVF)

0305.22

A portion of the sales tax, which is ultimately due on the retail sale of MVF, is prepaid at the time of the first taxable distribution of MVF in this state. These prepayments into the "SG" fund ~~are~~ separate from the sales and use tax program, and must be verified as part of routine audits of MVF sellers. ~~(See Operations Memos 866 & 879)~~

OVERPAYMENTS

0305.25

For reasons indicated in Chapter 2, verification comments should be particularly complete in audits recommending refunds. (See Section 0216.03.)

TAX ERRORS ON RETURNS

0305.30

Any material unexplained differences between the total tax on Form ~~BOET~~-414 and the tax paid by the taxpayer should be commented upon fully by the auditor under the appropriate caption on the back of Form ~~BOET~~-414-A. Comments should indicate why the differences cannot be explained and their probable nature.

NOTES

0305.35

Notes, as distinguished from the verification comments, should give the detail of all significant differences affecting taxable sales as well as the reason for the differences. If, for example, certain sales for resales were disallowed, the note on this subject should not only indicate that fact, but also the reason for disallowance. Wherever possible, these notes should appear on the same line on the schedule as the item, which is being explained. ~~(See Exhibits 12, 15).~~

SPECIAL EXPLANATION

0305.40

It may be necessary to make comments or explanations on the summary or subsidiary schedules, which are of a kind other than those previously indicated. This type of comment should be made under a heading, which describes the subject matter as precisely as possible. ~~For example:~~

~~For example,~~ Rental transactions may affect several items on the tax return such as total sales, purchases subject to use tax, or some other deduction. In commenting on rentals, it will often be simpler to discuss all phases of the transactions under the single heading "Rentals" rather than to discuss it in part under a number of separate headings.

DATING ENTRIES IN AUDIT REPORTS AND WORKING PAPERS

0305.50

A uniform method of dating entries ~~in audit reports and working papers~~ is to be used in both computer generated and hand written audit reports and working papers. Dating entries are as follows:

- (a) Specific dates are to be entered as: ~~1-9 XX, 2-19 XX, etc~~ 1/1/1999, 2/19/1999, etc.
- (b) Specific months are to be entered as: ~~May 19XX1999, July 19XX1999, etc.~~
- (c) Specific quarters are to be entered as: ~~2 XX, 3 XX, 4 XX, etc.~~ 1Q-99, 2Q-99, etc.
- (d) Specific years are to be entered as: ~~19X1, 19X2, 19X3, etc.~~ YR98, YR99, etc.
- (e) Specific fiscal years are to be entered as: ~~FYE 3-31 X1, FYE 3-31 X2, FYE 3-31 X3, etc.~~ FY-97/98, FY-98/99, etc.

SAMPLE WORKING PAPERS

0305.60

Computer generated~~Handwritten~~ working papers are a part of this chapter. Features, which should be noted, are indexing and cross-referencing, cross-footings, format, and comments on the schedules. They should be carefully studied as an illustration of the type of working papers desired to support tax audits.

It is impractical to illustrate all of the numerous variations of working papers that may be used to record and summarize data secured during the course of an audit. The illustrations in this chapter are samples only. The schedules illustrating total sales and sales for resale may be used for any deduction where the arrangement fits in with the audit program. There are two general types of working papers illustrated, summary schedules and subsidiary schedules. Summary schedules (0303.10) always present certain basic information, usually by quarters; i.e., period, amount per audit, amount reported, difference, and analysis of difference. Subsidiary schedules (0303.15) are arranged to present the desired information in a form to fit into the summary schedule which they support.

In order for this Issue Paper to be printed and distributed in a timely manner, one change to the Audit Manual exhibits, recommended during the management clearance process, has not yet been made. This change is to delete schedule 16 (Exhibits 30 and 59) and to adjust any references to these schedules in the audit working papers accordingly. These changes will be made before the audit manual is reprinted.

Table of Exhibits

Summary of Claimed Exempt Sales by Quarter	Exhibit 1
Test of Claimed Exempt Sales	Exhibit 2
Summary of Claimed Exempt Sales by Page Total	Exhibit 3
Summary of Purchases Subject to Use Tax by Quarter	Exhibit 4
Test of Purchases Subject to Use Tax	Exhibit 5
Summary of Purchases Subject to Use Tax by Page Total	Exhibit 6
Summary of Differences	[414–A2] Exhibit 7
Index to Audit Working Papers	[BOE–495] Exhibit 8
Total Sales Summary	[1] Exhibit 9
Recorded Sales	[1A] ... Exhibit 10
Markup Analysis	[1B] ... Exhibit 11
Unrecorded Sales	[1C] ... Exhibit 12
Unreported Sales of Capital Assets	[1D] ... Exhibit 13
Sales to Employees	[1E] ... Exhibit 14
Reconciliation with F.I.T.R.'s and Markup Analysis	[1F] ... Exhibit 15
Purchases Subject to Use Tax	[2] ... Exhibit 16
Transfers from Ex-Tax Inventory for Own Use	[2A] ... Exhibit 17
Quarterly Analysis of Consumable Supplies	[2B] . Exhibit 18A
Quarterly Ex-Tax Purchases of Consumable Supplies from Out of State Vendors	[2B–1] . Exhibit 18B
Sales for Resale Summary	[4] ... Exhibit 19
Percentage of Disallowance	[4A] ... Exhibit 20
Sales for Resale Test — Statistical Sample	[4A–1] ... Exhibit 21
Sample Base	[4A-2] ... Exhibit 22
Statistical Sample Evaluation	[4B] ... Exhibit 23
Labor Sales Summary	[6] ... Exhibit 24
Quarterly Analysis of Disallowed Labor Sales	[6A] ... Exhibit 25
Labor Sales Disallowed	[6A–1] ... Exhibit 26
Sales to U.S. Government (414C)	[7] ... Exhibit 27
Interstate and Foreign Commerce Sales Summary	[8] ... Exhibit 28
Bad Debts Summary	[10] ... Exhibit 29
Sales to Aircraft Common Carriers	[18] ... Exhibit 30
BART Taxable Measure Summary	[A8.1] ... Exhibit 31
Disallowed Resales Subject to BART Tax	[A8.1A] ... Exhibit 32
Percentage of Disallowance of Resales Subject to BART Tax	[A8.1A–1] ... Exhibit 33
LACT Taxable Measure Summary	[A8.2] ... Exhibit 34
Disallowed Resales Subject to LACT Tax	[A8.2A] ... Exhibit 35
Percentage of Disallowance of Resales Subject to LACT Tax	[A8.2A–1] ... Exhibit 36
Index to Audit Working Papers	[BOE–495] ... Exhibit 37
Taxable Measure Analysis	[12] ... Exhibit 38
Recorded Sales	[12A] ... Exhibit 39

TABLE OF EXHIBITS (CONTINUED)

Markup Analysis	[12B]	.... Exhibit 40
Total Sales Reconciliation	[12C]	.... Exhibit 41
Unrecorded Sales	[12D]	.... Exhibit 42
Sales to Employees	[12E]	.... Exhibit 43
Unreported Sales of Capital Assets	[12F]	.... Exhibit 44
Transfers from Ex-tax Inventory for Own Use	[12G]	.... Exhibit 45
Quarterly Analysis of Consumable Supplies	[12H]	.... Exhibit 46
Ex-tax Purchases of Consumable Supplies	[12H-1]	.... Exhibit 47
Sales for Resale Reconciliation	[12I]	.... Exhibit 48
Disallowed Sales for Resale	[12J]	.... Exhibit 49
Percentage of Disallowance	[12J-1]	.... Exhibit 50
Sales for Resale Test — Stat Sample	[12J-1a]	.... Exhibit 51
Statement Concerning Property		
Purchased Without Tax (XYZ Letter)	[12J-1a-1]	.... Exhibit 52
Statistical Sample Evaluation	[12J-2]	.... Exhibit 53
Quarterly Summary of Labor Sales Disallowed	[12K]	.... Exhibit 54
Labor Sales Disallowed	[12K-1]	.... Exhibit 55
Quarterly District Analysis		
of Labor Sales Disallowed	[12K-2]	.... Exhibit 56
Disallowed Interstate Commerce Sales	[12L]	.... Exhibit 57
Disallowed Claimed Bad Debts	[12M]	.... Exhibit 58
Sales to Aircraft Common Carriers	[18]	.... Exhibit 59
BART Taxable Measure Analysis	[A8.1]	.... Exhibit 60
Disallowed Resales Subject to BART Tax	[A8.1A]	.... Exhibit 61
Percentage of Disallowance of Resales		
Subject to BART Tax	[A8.1A-1]	.... Exhibit 62
LACT Taxable Measure Analysis	[A8.2]	.... Exhibit 63
Disallowed Resales Subject to LACT Tax	[A8.2A]	.... Exhibit 64
Percentage of Disallowance of		
Resales Subject to LACT Tax	[A8.2A-1]	.... Exhibit 65

SUMMARY OF CLAIMED EXEMPT SALES BY QUARTER

EXHIBIT 1

PAGE 1 OF 2

DISALLOWED CLAIMED EXEMPT SALES

12X page 1 of 2

SR AC 12-121212

J.C. Conlon

09/03/1999

REF	A	B	C	D	E
	<12X-1>		<12X-1>		<12X-1>
			QUESTIONED CLAIMED EXEMPT SALES	DISALLOWED CLAIMED EXEMPT SALES	ADDITIONAL TRANSIT TAX MEASURE
1			Data		
2	Years	DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE
3	1996	Qtr2	3,112	1,767	1,767
4		Qtr3	7,137	1,011	1,011
5		Qtr4	1,692	1,692	1,692
6	1997	Qtr1	12,514	780	780
7		Qtr2	6,175	1,362	1,362
8		Qtr3	1,184	112	112
9		Qtr4	5,053	1,329	1,329
10	1998	Qtr1	1,118	120	120
11		Qtr2	5,153	0	0
12		Qtr3	2,299	398	398
13		Qtr4	890	645	645
14	1999	Qtr1	3,477	3,001	3,001
15	Grand Total		49,804	12,217	12,217

<12>

Note:

This schedule was generated using a pivot table. Using pivot tables will not allow the period codes to be in the prescribed format of 1Q-96, 2Q-96, etc.

Copy to Taxpayer

Date: _____

Summary of Claimed Exempt Sales by Quarter

Exhibit 1
Page 2 of 2DISALLOWED CLAIMED EXEMPT SALES -
Additional Transit Tax Measure

12X page 2 of 2

SR AC 12-121212

J. C. Conlon

09/03/99

REF

A	B	C	D	E	F	G
		<12X-1>	<12X-1>	<12X-1>	<12X-1>	<12X-1>
		LACT	LATC	OCTA	SDTC	STAT
1		Data				
2	Years	DATE	Sum of LACT	Sum of LATC	Sum of OCTA	Sum of SDTC
3	1996	Qtr1				
4		Qtr2	17	17	1,750	
5		Qtr3	411	411		600
6		Qtr4	1,692	1,692		
7	1997	Qtr1	780	780		
8		Qtr2	623	623	341	398
9		Qtr3				112
10		Qtr4	1,329	1,329		
11	1998	Qtr1	120	120		
12		Qtr2				
13		Qtr3	40	40	358	
14		Qtr4	645	645		
15	1999	Qtr1	2,772	2,772	229	
16		Qtr2				
17		Qtr3				
18		Qtr4				
19	Grand Total		8,429	8,429	2,678	510
20			<A8.1>	<A8.1>	A8.2>	<A8.3>
21						<A8.4>

Note:

This schedule was generated using a pivot table.

Copy to Taxpayer
Date: _____

Copy to Taxpayer
Date:

QUESTIONED CLAIMED EXEMPT SALES - ACTUAL BASIS						SCHEDULE: 12X-1															
						SR AC 12-121212															
						J. C. Conlon															
						09/03/99															
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P					
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	PO STATUS	ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1164 SENT					
31	09/22/1997	15451	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123014		Silver Foam Covers	925	0	0	NONE	XYZ states resale	Y						
32	10/01/1997	15562	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123612		Hangers	3,600	0	0	NONE	XYZ states resale	Y						
33	10/29/1997	15673	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123789		Displays	618	618	618	LACT, LATC	XYZ states taxable	Y						
34	11/12/1997	15784	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123987		Envelopes	711	711	711	LACT, LATC	XYZ states taxable	Y						
35	11/24/1997	15895	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551002	NT	Solvents	42	0	0	NONE	Resale card located		Y					
36	12/03/1997	16006	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551125	NT	Light Bulbs	62	0	0	NONE	Resale card located		Y					
37	12/10/1997	16117	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551300	NT	Polishing Cream	20	0	0	NONE	Resale card located		Y					
38	01/14/1998	16228	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551456	NT	Miracle Wax	195	0	0	NONE	Resale card located		Y					
39	01/22/1998	16339	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4562011	NT	Paint Remover	40	0	0	NONE	Resale card located		Y					
40	02/04/1998	16450	FLOWER POWER	2322 N. Plum Street	Los Angeles, CA 90042				Business Cards	90	90	90	LACT, LATC	No response to XYZ	Y						
41	02/25/1998	16561	JOSE'S SUPPLIES	23223 E. River Drive	Riverside, CA 92508				Hangers	140	0	0	NONE	XYZ states reported in 1Q98	Y						
42	03/09/1998	16672	LITTLE GUY INC.	5678 Fashion Center Blvd	Newport Beach, CA 92660				Polishing Cream	623	0	0	NONE	XYZ states resale	Y	Y					
43	03/31/1998	16783	FLOWER POWER	2322 N. Plum Street	Los Angeles, CA 90042				Printed Materials	30	30	30	LACT, LATC	No response to XYZ	Y						
44	04/07/1998	16894	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563007		Gloves	210	0	0	NONE	Resale card located		Y					
45	06/01/1998	17005	LITTLE GUY INC.	5678 Fashion Center Blvd	New York, NY 67890	New York			Paint Remover	2,848	0	0	NONE	Supported by Bill of Lading							
46	06/11/1998	17116	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97987		Hangers	1,980	0	0	NONE	XYZ states resale	Y						
47	06/24/1998	17227	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563578	NT	Polishing Wheels	115	0	0	NONE	Resale card located		Y					
48	07/06/1998	17338	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4564000	NT	Miracle Wax	35	0	0	NONE	Resale card located		Y					
49	07/17/1998	17449	HALLAS COLOR	3456 Hasley Canyon Road	Irvine, CA 92715				Big Warehouse Sale Flyers	358	358	358	OCTA	XYZ states taxable	Y						
50	08/21/1998	17560	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97999		Hangers	1,677	0	0	NONE	XYZ states resale	Y						
51	09/08/1998	17671	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y98448		Hangers	189	0	0	NONE	XYZ states resale	Y						
52	09/18/1998	17782	FLOWER POWER	2322 N. Plum Street	Los Angeles, CA 90042				Brochures	40	40	40	LACT, LATC	No response to XYZ	Y						
53	10/02/1998	17893	GRAPHIC TRAFFIC	23955 Soledad Road	Santa Clarita, CA 91350		789654	T	Big Warehouse Sale Flyers	330	330	330	LACT, LATC	PO states taxable.							
54	10/23/1998	18004	GRAPHIC TRAFFIC	23955 Soledad Road	Santa Clarita, CA 91350		795461	T	Big Warehouse Sale Flyers	315	315	315	LACT, LATC	PO states taxable.							
55	11/01/1998	18115	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4577891		Brochures	100	0	0	NONE	Resale card located		Y					
56	11/09/1998	18226	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578012		Business Cards	107	0	0	NONE	Resale card located		Y					
57	11/22/1998	18337	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578124		Polishing Cream	38	0	0	NONE	Resale card located		Y					
58	01/14/1999	18448	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y98783		Hangers	165	0	0	NONE	XYZ states resale	Y						
59	01/28/1999	18559	FLOWER POWER	2322 N. Plum Street	Los Angeles, CA 90042				Gloves	38	38	38	LACT, LATC	No response to XYZ	Y						
60	02/02/1999	18670	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4579123		Solvents	71	0	0	NONE	Resale card located		Y					

Copy to Taxpayer
Date: _____

January 2000

QUESTIONED CLAIMED EXEMPT SALES -
ACTUAL BASIS

SCHEDULE: 12X-1
SR AC 12-121212
J. C. Conlon
09/03/99

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	STATUS	ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1164 SENT
61	02/09/1999	18781	BOBBY MANUFACTURING CO.	3434 Long Arrow Highway	Los Angeles, CA 90043				Tea Program Brochures	2,734	2,734	2,734	LACT, LATC	XYZ states taxable	Y	
62	02/23/1999	18892	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4581123		Polishing Cream	63	0	0	NONE	Resale card located		Y
63	03/03/1999	19003	HALLAS COLOR	3456 Hasley Canyon Road	Irvine, CA 92715				Big Warehouse Sale Flyers	229	229	229	OCTA	XYZ states taxable	Y	
64	03/29/1999	19225	GRAPHIC TRAFFIC	23955 Soledad Road	Santa Clarita, CA 91350		797456		Instruction Sheets	93	0	0	NONE	Resale card located		
65	03/17/1999	19114	GRAPHIC TRAFFIC	23955 Soledad Road	Santa Clarita, CA 91350		796123		Instruction Sheets	84	0	0	NONE	Resale card located		
									TOTAL	49,804	12,217	12,217				
											<12X>	<12X>				

Note: 1

Auditors can justify columns to make worksheet readable.

Note: 2

Schedules should be printed on legal size (8.5 x 14) to conform to 0302.08.

Note: 3

All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above.

Copy to Taxpayer
Date: _____

SUMMARY OF CLAIMED EXEMPT SALES BY PAGE TOTAL

EXHIBIT 3

QUESTIONED CLAIMED EXEMPT SALES -
PAGE TOTALS

SCHEDULE: 12X-1 page 4 of 4
SR AC 12-121212
J. C. Conlon
09/03/99

	A	B	C	D	E	F	G	H
--	---	---	---	---	---	---	---	---

PG	LINE START	LINE END	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE			
1	1	33	36,032	7,342	7,342			
2	34	65	13,772	4,875	4,875			
	TOTAL		49,804	12,217	12,217			

Note:.

This schedule was generated using a pivot table and should be numbered as the last page of the Questioned Claimed Exempt Sales schedule (Exhibit 2).

Copy to Taxpayer
Date: _____

SUMMARY OF PURCHASES SUBJECT TO USE TAX BY QUARTER

EXHIBIT 4

PAGE 1 OF 2

ADDITIONAL CONSUMABLE SUPPLIES
SUBJECT TO USE TAX - 1997

SCHEDULE: 12Y page 1 of 2
PERMIT SRAC 12-121212
AUDITOR J. C. Conlon
DATE 09/09/99

REF	A	B	C	D	E	F
	<12Y-1>		<12Y-1>		<12Y-1>	
			QUESTIONED SUPPLY PURCHASES	ADDITIONAL TAXABLE SUPPLY PURCHASES	ADDITIONAL TRANSIT TAX MEASURE	
1			Data			
2	Years	DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE	
3	1997	Qtr1	12,153	9,755	9,755	
4		Qtr2	4,439	3,214	3,214	
5		Qtr3	2,666	2,486	2,486	
6		Qtr4	12,439	9,308	9,308	
7	Grand Total		31,697	24,763	24,763	

<12>

Note:

This schedule was generated using a pivot table.

Copy to Taxpayer

Date: _____

AUDIT WORKING PAPERS

SUMMARY OF PURCHASES SUBJECT TO USE TAX BY QUARTER

EXHIBIT 4
PAGE 2 OF 2

ADDITIONAL CONSUMABLE
SUPPLIES Additional Transit Tax
Measure

SCHEDULE: 12Y page 2 of 2
PERMIT SR AC 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A	B	C	D	E	F	G	H
		<12Y-1>	<12Y-1>	<12Y-1>			
		LACT	LATC	NO TRANSIT TAX			
		Data					
Years	DATE	Sum of LACT	Sum of LATC	Sum of NONE			
1997	Qtr1	9,755	9,755	0			
	Qtr2	3,214	3,214	0			
	Qtr3	2,486	2,486				
	Qtr4	9,308	9,308	0			
Grand Total		24,763	24,763	0			
		<A8.1>	<A8.1>				

Note:

This schedule was generated using a pivot table. Using pivot tables will not allow the period codes to be in the prescribed format of 1Q-96, 2Q-96, etc.

Copy to Taxpayer
Date: _____

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

EXHIBIT 5

[illegible]

Auditors can justify columns to make worksheet more presentable and do not have to conform with template default.

Schedules should be printed on legal size (8.5 x 14) or larger to conform to 0302.08.

All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above

January 2000

SUMMARY OF PURCHASES SUBJECT TO USE TAX BY PAGE TOTAL

EXHIBIT 6

QUESTIONED EX-TAX PURCHASES
OF CONSUMABLE SUPPLIES - TEST
OF 1997 PAGE TOTAL

SCHEDULE: 12Y-1 page 3 of 3
PERMIT SR AC 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

PG	LINE START	LINE END	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE			
1	1	32	17,080	11,499	11,499			
2	33	50	14,617	13,264	13,264			
	TOTAL		31,697	24,763	24,763			

Note:

This schedule was generated using a pivot table. Using pivot tables will not allow the period codes to be in the prescribed format of 1Q-96, 2Q-96, etc.

Copy to Taxpayer
Date: _____

SUMMARY OF DIFFERENCES

[414-A2]

EXHIBIT 7

SUMMARY OF DIFFERENCES

SCHEDULE	12
PERMIT	12-121212
AUDITOR	J.C.Conlon
DATE	10/01/1999

	A	B	C	D	E	F	G	H
		<12R>	<12S>	<12T>	<12U>	<12V>	<12W>	SUM(B..G)
REF	PERIOD	TOTAL SALES	PURCHASES SUBJECT TO USE TAX	RESALES	LABOR	INTERSTATE COMMERCE	BAD DEBTS	MEASURE OF STATE AND COUNTY TAX
1	3Q-98	325	536	490	588	495		2,434
2	4Q-98	1,760	729	701	449	1,420		5,059
3	1Q-99	615	910	591	205	835	3,468	6,624
4	TOTAL	2,700	2,175	1,782	1,242	2,750	3,468	14,117
5								<414A-1>

Note:

A separate schedule is required for each area of non-compliance. This schedule is used for upload purposes and should be superseded and placed in the back of the AWP's.

Copy to Taxpayer

Date: _____

EXHIBIT 8

INDEX TO AUDIT WORKING PAPERS

Account Number: SR AC 12-121212

January 2000

TOTAL SALES SUMMARY (EX-TAX)

SCHEDULE	1	page 1 of 2
PERMIT	SR	AC 12-121212
AUDITOR	J.C.	Conlon
DATE	10/01/1999	

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
		<1A>	<1C>	<1D>	<1E>	(B+C+D+E)	<414>	(F-G)		(J+K+L)				<6>
										ANALYSIS OF DIFFERENCE				
RE F	PERIOD	RECORDED SALES	UNRECORD ED SALES	SALES OF FIXED ASSETS	SALES TO EMPLOYEES	AUDITED SALES	REPORTED SALES	DIFFERENCE		UNRECORDED MATERIAL SALES	SALES OF FIXED ASSETS	SALES TO EMPLOYEES	TOTAL	CONTRA LABOR
1	3Q-98	58,695			325	59,020	58,695	325				325	325	
2	4Q-98	61,354		1,600	160	63,114	61,354	1,760			1,600	160	1,760	
3	1Q-99	49,954	900		215	51,069	49,954	1,115		400		215	615	-500
4	TOTAL	170,003	900	1,600	700	173,203	170,003	3,200		400	1,600	700	2,700	-500

VERIFICATION COMMENTS**TYPES OF TRANSACTIONS**

The taxpayer is a retailer of electrical supplies with a machine shop for making customized parts for special orders. Some repair work is done. The taxpayer has two locations: Los Angeles and San Francisco. Sales are recorded and reported on the accrual basis and sales tax reimbursement is added to the selling price of materials sold.

SOURCE OF DATA. AUDIT PERIOD

General ledger, sales journal, cash receipts journal, general journal, sales tax returns, and other related documentation.

VERIFICATION AND FINDINGS

Sales are initially recorded by the taxpayer at the time of sale on numerically sequenced invoices. The invoices were hand posted to a manually prepared sales journal through December 1998. Beginning January 1999, the taxpayer posted sales invoices to a computer generated sales journal. Both the hand and computer generated sales journals segregated sales by type of sale; Taxable, resale, repair, labor, U.S. Government, and interstate commerce. Separate sales journals are prepared for each location and are combined when posted to the general ledger.

Note:
The * referenced above refers to the upload schedule and is to be broken out by separate non-compliance codes.

Copy to Taxpayer
Date: _____

TOTAL SALES SUMMARY (EX-TAX)

SCHEDULE	1 page 2 of 2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	10/01/1999

A	B	C	D	E	F	G	H	I	J	K	L	

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

VERIFICATION AND FINDINGS - Continued

Total sales were transferred from the sales journal on <1A>. Sales invoices were traced into the sales journal for two complete recording cycles: July 1998 and January 1999. One unrecorded sale was noted <1C>. No recurring errors were indicated so no further examination was done.

Sales journal totals were traced to the general ledger for the audit period. No errors were noted.

The general journal and capital asset accounts were examined in detail for the entire audit period. One ex-tax sale was disclosed and scheduled on <1D>.

A markup analysis was done on taxable sales <1B> resulting in a 65.16% mark-up. This was considered adequate for this type of business. Recorded sales were accepted with the above exceptions.

Total sales reported were reconciled with total sales per the 1998 federal income tax return on <1F>. No material differences were disclosed and no unreported sales were indicated.

Total sales do not include sales tax which is accrued in the general ledger. Examination of the accrual account did not disclose any excess sales tax reimbursement or unreported taxable sales.

The taxpayer's business was closed from January 17, 1999 through January 25, 1999 due to labor troubles.

Copy to Taxpayer
Date: _____

RECORDED SALES

[1A] EXHIBIT 10

RECORDED SALES

SCHEDULE	1A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/25/1999

	A	B	C	D	E	F	G	H
	<===== <SALES JOURNAL> =====>						SUM (B..F)	
REF	PERIOD	TAXABLE <EXTAX>	RESALE	U.S. GOV'T	INTERSTATE COMMERCE	LABOR	TOTAL	
1								
2	JULY	13,007	3,133	350	140	695		
3	AUG	18,003	2,076	180	620	478		
4	SEP	16,015	3,163	420	40	375		
5	3Q-98	47,025	8,372	950	800	1,548	58,695	
6								
7	OCT	19,273	2,486	389	900	710		
8	NOV	16,236	2,874	576	1,140	208		
9	DEC	8,334	5,999	435	1,580	214		
10	4Q-98	43,843	11,359	1,400	3,620	1,132	61,354	
11								
12	JAN	9,209	2,157	675	1,865	452		
13	FEB	11,765	3,868	200	420	617		
14	MAR	13,376	4,072	545	525	208		
15	1Q-99	34,350	10,097	1,420	2,810	1,277	49,954	
16	TOTAL	125,218	29,828	3,770	7,230	3,957	170,003	
17		<1B>	<1B>	<1B>	<1B>	<6>	<1>	
18			<4>		<8>			
19			<A11.1A-1>					
20			<A11.1A-2>					
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Instructional Note:

In general, figures and other data from the taxpayer's records should not be transcribed to the audit working papers without good reason. However, for illustration purposes a summary schedule of recorded sales has been prepared for this sample audit.

Copy to Taxpayer
Date: _____

MARKUP ANALYSIS

[1B EXHIBIT 11

MARK-UP ANALYSIS - TAXABLE SALES

SCHEDULE	1B
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/21/1999

	A	B	C	D	E	F	G	H
REF								07/01/1998 to 3/31/1999
1								
2	<1A>	TAXABLE SALES (EXTAX)						125,218
3								
4	*	COST OF SALES					112,932	
5								
6		LESS: COST OF SALES @ 10% MARK-UP						
7	<1A>	RESALES			29,828			
8	<1A>	U.S. GOVT			3,770			
9	<1A>	INTERSTATE COMMERCE			<u>7,230</u>			
10					40,828	X .909090	37,116	
11								
12	(Line 4-10)	COST OF TAXABLE SALES						75,816
13								
14	(Line 2-12)	GROSS PROFIT						<u>49,402</u>
15								
16	(Line 14/12)	MARK-UP						<u><u>65.16%</u></u>
17								
18	*	Beginning Inventory					0	
19		Total Purchases:	3Q-98	41,787				
20			4Q-98	42,470				
21			1Q-99	<u>34,008</u>	118,265			
22		Less: Ending Inventory			<u>-5,333</u>			
23		Cost of Sales			<u><u>112,932</u></u>			
24					<Line 4>			
25		<u>Comments</u>						
26		Discussion with sales manager indicated that sales for resale, U.S. Gov't, and						
27		Interstate sales were made at consierably less mark-up than taxable sales. He						
28		estimated that the average mark-up on these sales was 10%. A test of a few						
29		invoices substantiated the estimate. Cost of these sales has been eliminated at						
30		the 10% mark-up so that a computation could be made of the mark-up on taxable						
31		sales as above.						

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

UNRECORDED SALES

[1C] EXHIBIT 12

UNRECORDED SALES

SCHEDULE	1C
PERMIT	12-121212
AUDITOR	J.C Conlon
DATE	09/21/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

REF	INVOICE DATE	INVOICE NUMBER	CUSTOMER	DESCRIPTION	AMOUNT
-----	-----------------	-------------------	----------	-------------	--------

1					
2	01/07/1999	2727	Peter Gabriel	Repairs and additions to	
3			1007 Sledgehammer Blvd.	interoffice communication	
4			San Francisco	system.	900
5					<u><1></u>
6					

Comments

In January 1999 the taxpayer changed over from a hand posted to an automated accounting system. Obvious posting and recording errors were made during the changeover. Journal entries were prepared to adjust for the errors, however, an invoice which had not been recorded was over looked. In view of the nature of the error and the quality of internal control present, the error was considered non-recurring.

Invoice Breakdown

Material	400	<A8.1>
Labor	<u>500</u>	<6>
Subtotal	900	
Tax on Material	<u>34</u>	
Total	<u><u>934</u></u>	

Copy to Taxpayer
Date: _____

UNREPORTED SALES OF CAPITAL ASSETS

[1D] EXHIBIT 13

UNRECORDED SALES OF CAPITAL ASSETS

SCHEDULE	1D
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/12/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

REF	DATE	JOURNAL ENTRY REFERENCE					DR.	CR.
1								
2	11/09/1998	J 11-6	ACCOUNT RECEIVABLE - JACK REYNOLDS				1,600	
3			RESERVE FOR DEPRECIATION				1,565	
4			AUTOMOTIVE EQUIPMENT					2,684
5			GAIN ON SALES OF CAPITAL ASSETS					481
6								
7			"TO RECORD SALE OF FORK LIFT TO					
8			JACK REYNOLDS"					
9								
10			TAXABLE AMOUNT					1,600
11								<1>
12								
13								
14								

COMMENTS

THE ABOVE SALE WAS MADE BY TAXPAYER'S SAN FRANCISCO LOCATION. THE FORKLIFT WAS USED IN THE TAXPAYER'S WAREHOUSE AND WAS SHIPPED VIA COMMON CARRIER TO THE PURCHASER IN MOJAVE.

Copy to Taxpayer
Date: _____

SALES TO EMPLOYEES

[1E] EXHIBIT 14

SALES TO EMPLOYEES

SCHEDULE	1E
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/21/1999

	A	B	C	D	E	F	G	H
					(C+D)			
REF	PERIOD	REFERENCE	LOS ANGELES	SAN FRANCISCO	TOTAL			
1	JULY	CR-6	90	26	116			
2	AUG	CR-12	78	20	98			
3	SEP	CR-19	80	31	111			
4	3Q-98		248	77	325			
5								
6	OCT	CR-25	50	25	75			
7	NOV	CR-34	20	28	48			
8	DEC	CR-39	25	12	37			
9	4Q-98		95	65	160			
10								
11	JAN	CR-42	55	15	70			
12	FEB	CR-46	71	30	101			
13	MAR	CR-51	31	13	44			
14	1Q-99		157	58	215			
15	TOTAL		500	200	700			
16			<A8.1>	<A8.1>	<1>			

COMMENTS

The company has a policy of selling goods to employees out of resale inventory. Resale cards were issued for merchandise sold to employees. There was no misuse of resale certificates since the goods were intended to be resold when purchased. All employee sales are made for cash and are segregated between both of the locations in the cash receipts journal. The auditor advised the taxpayer that employee sales should be self-reported on future returns.

Copy to Taxpayer
Date: _____

RECONCILIATION WITH F.I.T.R.'S AND MARKUP ANALYSIS

[1F]

EXHIBIT 15

PAGE 1 OF 2

FEDERAL INCOME TAX
RETURNS FOR
CORPORATIONS

SCHEDULE	1F page 1 of 2
PERMIT SR AC	12-121212
AUDITOR	J.C. CONLON
DATE	09/08/1999

	A	B	C	D	E
REF			7/1/97 to 12/31/97	1998	1999
1	GROSS RECEIPTS		120,050	840,350	882,368
2	BEGINNING INVENTORY			4,300	30,100
3	PURCHASES		82,998	580,986	610,035
4	COST OF LABOR				
5	OTHER COSTS				
6	ENDING INVENTORY		4,300	30,100	31,605
7	COST OF GOODS SOLD	(L2+L3+L4+L5-L6)	78,698	555,186	608,530
8	GROSS PROFIT	(L1-L7)	41,352	285,164	273,838
9	OTHER INCOME		1,600		
10	TOTAL INCOME	(L8+L9)	42,952	285,164	273,838
11	DEDUCTIONS:				
12	COMPENSATION TO OFFICERS		12,000	60,000	63,000
13	SALARIES AND WAGES		15,000	75,000	78,750
14	REPAIRS AND MAINTENANCE			1,500	1,575
15	BAD DEBTS			25,000	26,250
16	RENTS				
17	TAXES AND LICENSES				
18	INTEREST			1,000	1,050
19	CHARITABLE CONTRIBUTIONS			300	315
20	DEPRECIATION		7,500	30,000	31,500
21	DEPLETION			15,505	16,280
22	ADVERTISING			3,450	3,623
23	PENSION, PROFIT-SHARING, EXT.			1,000	1,050
24	EMPLOYEE BENEFIT PROGRAMS			1,000	1,050
25	OTHER DEDUCTIONS		512	2,048	2,150
26	TOTAL DEDUCTIONS	(L12:L25)	35,012	215,803	226,593
27	NET INCOME	(L10-L26)	7,940	69,361	47,245
28	GROSS RECEIPTS PER FITR	(L1)	120,050	840,350	882,368
29	SALES TAX INCLUDED IN FITR GROSS RECEIPTS EX-TAX GROSS RECEIPTS				
30	REPORTED TO BOE	(414-M)	120,049	840,351	882,367
31	DIFFERENCE	(L28-L29-L30)	1	-1	1

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

RECONCILIATION WITH F.I.T.R.'S AND MARKUP ANALYSIS

EXHIBIT 15
PAGE 2 OF 2

FEDERAL INCOME TAX RETURNS
FOR CORPORATIONS

SCHEDULE	1F page 2 of 2
PERMIT	SR AC 12-121212
AUDITOR	J.C. CONLON
DATE	9/09/1999

	A	B	C	D	E	F	G
							(B..F)
REF			7/1/97 to 12/31/97	1998	1999		TOTAL
1	TOTAL SALES EX-TAX		120,050	840,350	882,368		1,842,768
2	COST OF GOODS SOLD		<u>78,698</u>	<u>555,186</u>	<u>608,530</u>		<u>1,242,414</u>
3	GROSS MARGIN	(L1-L2)	<u>41,352</u>	<u>285,164</u>	<u>273,838</u>		<u>600,354</u>
4	MARKUP	(L3/L2)	<u>52.55%</u>	<u>51.36%</u>	<u>45.00%</u>		<u>48.32%</u>

Copy to Taxpayer
Date: _____

PURCHASES SUBJECT TO USE TAX

[2] EXHIBIT 16

PURCHASES SUBJECT TO USE TAX
SUMMARY

SCHEDULE	2
PERMIT	SR AC 12-121212
AUDITOR	J.C. Conlon
DATE	09/09/1999

REF	A	B	C	D	E	F	G
			<2A>	<2B>	(C+D)		
			TRANSFERS FROM EX-TAX	EX-TAX PURCHASES FROM OUT OF			
1	3Q-98		261	275	536		
2	4Q-98		251	349	600		
3	1Q-99		161	878	1,039		
4	TOTAL		673	1,502	2,175		
5			*	*	<414-A2>		

VERIFICATION COMMENTSTypes of Transactions

The taxpayer purchases some supplies from unregistered out-of-state vendors and also makes regular withdrawals for own use from ex-tax inventory.

Source of Data

Paid bills, general ledger, and general journal for the audit period.

Verification

The taxpayer maintains all vendor invoices in an alphabetical file by vendor.

Examined the purchases file on an actual basis since it contained all invoices for the audit period. Ex-tax purchases of expense items were scheduled on <2B>. Reported amounts on line 2 were purchases from a single, unregistered, out-of-state vendor.

The general ledger capital assets and expense accounts were reviewed for possible purchases subject to use tax. Withdrawals from ex-tax inventory for the taxpayer's own use were scheduled on <2A>. No additional purchases subject to use tax noted.

Findings

- A) Withdrawals from ex-tax inventory for own use not reported.
- B) Supply purchases from out-of-state vendors subject to use tax not reported.

Note:

The * referenced above refers to the upload schedule and is to be broken out by separate non-compliance codes.

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

TRANSFERS FROM EX-TAX INVENTORY FOR OWN USE

[2A]

EXHIBIT 17

TRANSFERS FROM EX-TAX
INVENTORY FOR OWN USE

SCHEDULE	2A
PERMIT	SR AC 12-121212
AUDITOR	J.C. Conlon
DATE	09/09/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

REF	DATE	REFERENCE	DESCRIPTION	LOS ANGELES	SAN FRANCISCO	TOTAL
1	07/31/1998	J7-19	MISCELLANEOUS ELECTRICAL SUPPLIES	70	38	108
2	08/31/1998	J8-17	SAME	40	52	92
3	09/30/1998	J9-23	SAME	21	40	61
4	3Q-98			131	130	261
5						
6	10/31/1998	J10-17	SAME	16	38	54
7	11/30/1998	J11-20	SAME	15	14	29
8	12/31/1998	J12-28	SAME	50	118	168
9	4Q-98			81	170	251
10						
11	01/31/1999	J1-14	SAME		32	32
12	02/28/1999	J2-18	SAME	52	29	81
13	03/31/1999	J3-25	SAME	14	34	48
14	1Q-1999			66	95	161
15	TOTAL			278	395	673
16				<A8.2>	<A8.1>	<2>

16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Copy to Taxpayer
Date: _____

QUARTERLY ANALYSIS OF CONSUMABLE SUPPLIES

[2B] EXHIBIT 18A

PAGE 1 OF 2

ADDITIONAL CONSUMABLE SUPPLIES
SUBJECT TO USE TAX - AUDIT PERIOD

SCHEDULE	2B page 1 of 2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/09/1999

REF	A	B	C	D	E	F
			<2B-1>	<2B-1>		
			QUESTIONED SUPPLY PURCHASES	ADDITIONAL TAXABLE SUPPLY PURCHASES	ADDITIONAL TRANSIT TAX MEASURE	
1			Data			
2	Years	DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE	
3	1998	Qtr1				
4		Qtr2				
5		Qtr3	293	275	275	
6		Qtr4	371	349	349	
7	1999	Qtr1	878	878	878	
8		Qtr2				
9		Qtr3				
10		Qtr4				
11	Grand Total		1,542	1,502	1,502	
12				<2>		

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

QUARTERLY ANALYSIS OF CONSUMABLE SUPPLIES

EXHIBIT 18A

PAGE 2 OF 2

ADDITIONAL CONSUMABLE SUPPLIES
SUBJECT TO USE TAX - AUDIT PERIOD
BY DISTRICT

SCHEDULE 2B page 2 of 2
PERMIT 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A	B	C	D	E	F	G	H
		<-----<2B-1>----->					
		LACT	LATC	BART	SFTA	SFPF	
		Data					
Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFTA	Sum of SFPF	
1998	Qtr1						
	Qtr2						
	Qtr3	190	190	85	85	85	
	Qtr4	109	109	240	240	240	
1999	Qtr1	749	749	129	129	129	
	Qtr2						
	Qtr3						
	Qtr4						
Grand Total		1,048	1,048	454	454	454	
		<A8.2>		<A8.1>			

Note:

LATC,SFTA & SFPF are not referenced in this example.

Copy to Taxpayer
Date: _____

[2B-1]	EXHIBIT 18B
--------	-------------

Date: _____

SALES FOR RESALE SUMMARY

[4] EXHIBIT 19

PAGE 1 OF 2

SALES FOR RESALE SUMMARY

SCHEDULE	4 page 1 of 2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

A	B	C	D	E	F	G	H	I
	<1A>	<4A>	(BxC)	(B-D)	<414>	(F-E)		
REF	RESALE SALES					DIFFERENCE	ANALYSIS OF DIFFERENCE	
	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED RESALES	AUDITED RESALES	CLAIMED RESALES	DISALLOWED RESALES	ERRORS IN PREPARING RETURNS
1	3Q-98	8,372	5.85%	490	7,882	8,372	490	490
2	4Q-98	11,359	5.85%	665	10,694	11,395	701	665
3	1Q-99	10,097	5.85%	591	9,506	10,097	591	591
4	TOTAL	29,828		1,746	28,082	29,864	1,782	1,746
5							<414-A2>	*

VERIFICATION COMMENTSTypes of Transactions

Sales for resale are mainly to electrical supply and hardware retailers.

Source of Data

Sales journal, sales invoices, customer P.O.'s, resale card file, and other related documentation for the audit period.

Verification and Findings

A stat sample was made of sales for resale. The sample size was calculated based on the results of the block sample used in the prior audit <4B-1>. The sample was selected using the Board's P.C. random sample program.

Sample invoices, amounts and questioned transactions are scheduled on <4A-1 page 1>.

Resales were traced to resale cards maintained by the taxpayer. The taxpayer was able to establish that most of the questioned transactions were valid sales for resale.

A percentage of disallowance (5.85%) was calculated on <4A>.

A portion of the disallowed resales were the result of a transposition error by the taxpayer when preparing the 4Q-98 return.

Note: 1

Schedule 4B-1, "Calculation of Sample Size", is not shown in this sample audit. For an example of the sample size calculation, see Chapter 13, Exhibit 13.

Note: 2

The * referenced above refers to the upload schedule 12 and is to be broken out by separate non-compliance codes.

Copy to Taxpayer

Date: _____

AUDIT MANUAL

SALES FOR RESALE SUMMARY

EXHIBIT 19

PAGE 2 OF 2

Disallowed Sales for Resale By
District

SCHEDULE	4 page 2 of 2
PERMIT	SR AC 12-121212
AUDITOR	J.C. Conlon
DATE	09/09/1999

REF

A	B	C	D	E	F	G	H
		<4A-1>	<4A-1>	<4A-1>	<4A-1>	<4A-1>	<4A-1>
		LACT	LATC	BART	SFTA	SFPF	NO TRANSIT TAX
		Data					
Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFPF	Sum of SFTA	Sum of NONE
1998	Qtr1						
	Qtr2						
	Qtr3						
	Qtr4						
1999	Qtr1	33	33	60	60	60	0
	Qtr2	29	29	24	24	24	37
	Qtr3	44	44				
	Qtr4						
Grand Total		106	106	84	84	84	161

<A8.2>

<A8.1>

Note:

As part of the pivot table process a column will be generated (column H). This happens when there is no description on the auditors worksheet under district taxes.

Copy to Taxpayer
Date: _____

PERCENTAGE OF DISALLOWANCE

[4A] EXHIBIT 20

PERCENTAGE OF DISALLOWANCE

SCHEDULE	4A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

REF	A	B	C	D	E	F	G	H
		<4A-2>	<4A-1>	(C/B)				
		RESALES TESTED	DISALLOWED RESALES	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6,007	351.00	5.85%				
3		<A8.1A-1>		<4>				
4		<A8.2A-1>						
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

January 2000

QUESTIONED CLAIMED RESALE SALES - STATISTICAL SAMPLE					SCHEDULE: 4A-1 SR AC 12-121212 J. C. Conlon 09/03/99												
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	PO STATUS	ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1/64 SENT	
1	08/09/1998	195	TURNER'S TOOL CO.	3434 Arrow Highway	Santa Ana, CA 92708				Envelopes	82	0	0	NONE	Resale card located	Y		
2	09/11/1998	239	OVERLAKE PRESS INC.	3433 Rosewood Road	Compton, CA 90221		C0012345		Holiday Greeting Cards	30	30	30	LACT, LATC	XYZ states taxable	Y		
3	09/18/1998	242	MESSENGER TOOLING, INC	22323 Washington Blvd	San Francisco, CA 94420				Signs	60	60	60	BART, SFTA, SFPF	No response to XYZ	Y		
4	10/21/1998	243	COLOR SERVICE INC.	3433 Hollywood Blvd	North Hollywood, CA 91606		CAL-130547		Transparency	3	3	3	LACT, LATC	No response to XYZ	Y		
5	10/27/1998	245	RALPH & COMPANY GREEN CORPORATION	3434 Long Arrow Highway	Mojave, CA 93503				Brass Hardware	37	37	37	NONE	XYZ states taxable	Y		
6	11/01/1998	257	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123014		Silver Foam Covers	46	0	0	NONE	XYZ states resale	Y		
7	11/05/1998	270	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123612		Hangers	28	0	0	NONE	XYZ states resale	Y		
8	11/09/1998	280	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551002	NT	Solvents	86	0	0	NONE	Resale card located	Y		
9	11/11/1998	294	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551125	NT	Light Bulbs	62	0	0	NONE	Resale card located	Y		
10	11/12/1998	350	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551300	NT	Polishing Cream	20	0	0	NONE	Resale card located	Y		
11	11/15/1998	362	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551456	NT	Miracle Wax	29	0	0	NONE	Resale card located	Y		
12	11/16/1998	372	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4562011	NT	Paint Remover	84	0	0	NONE	Resale card located	Y		
13	11/18/1998	386	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563007		Gloves	21	0	0	NONE	Resale card located	Y		
14	11/19/1998	412	LITTLE GUY INC. YOUSEFFIA FASHIONS	5678 Fashion Center Blvd	New York, NY 67890	New York			Paint Remover	22	0	0	NONE	Supported by Bill of Lading			
15	11/20/1998	425	FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97987		Hangers	12	0	0	NONE	XYZ states resale	Y		
36	03/21/1999	680	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563578	NT	Polishing Wheels	115	0	0	NONE	Resale card located	Y		
37	03/22/1999	699	BIG BUSINESS INC.	4545 West Industry Drive	Los Angeles, CA 90021		123789456		Business Cards	44	44	44	LACT, LATC	XYZ states taxable	Y		
38	03/25/1999	702	HOLLYWOOD & VEGA	4544 W. Industry Way	Mojave, CA 93502		REF4547900	NT	Trays	64	64	64	NONE	XYZ states taxable	Y		
39	03/27/1999	784	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4564000	NT	Miracle Wax	35	0	0	NONE	Resale card located	Y		
40	03/27/1999	791	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4577891		Brochures	100	0	0	NONE	Resale card located	Y		
41	03/28/1999	805	LITTLE GUY INC. YOUSEFFIA FASHIONS	5678 Fashion Center Blvd	New York, NY 67890	New York			Paint Remover	76	0	0	NONE	Supported by Bill of Lading			
42	03/29/1999	816	FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97987		Hangers	50	0	0	NONE	XYZ states resale	Y		
43	03/30/1999	866	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578012		Business Cards	40	0	0	NONE	Resale card located	Y		
44	03/30/1999	867	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578124		Polishing Cream	38	0	0	NONE	Resale card located	Y		
45	03/30/1999	893	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y98783		Hangers	165	0	0	NONE	XYZ states resale	Y		
										1,470	351	351					
												<4A>					

Copy to Taxpayer
Date:

AUDIT WORKING PAPERS

SALES FOR RESALE TEST — STATISTICAL SAMPLE

EXHIBIT 21

PAGE 2 OF 2

BOE 504-CUS (1-97)

**STATEMENT CONCERNING PROPERTY PURCHASED
WITHOUT PAYMENT OF CALIFORNIA SALES TAX**

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

DMA _____ AC _____
Auditor's Initials J.C. _____

Please complete this inquiry statement to indicate the disposition of certain non-taxed purchases you made from the seller listed below. Please fill out the form completely, check the appropriate boxes, and sign as your company's authorized representative. The form should be returned within 10 days.

NAME OF SELLER FROM WHOM YOU PURCHASED ITEMS WITHOUT SALES TAX ABC COMPANY				SELLER'S PERMIT NO. SR AC 12-121212
DATE	INVOICE NUMBER	PURCHASE ORDER NUMBER	AMOUNT	DESCRIPTION
09/11/1998	239	C0012345	30	HOLIDAY GREETING CARDS

Please check the appropriate boxes below. If none of these apply, please explain below.

- ☐ The above property was purchased for resale and was resold in the form of tangible personal property. It was not used for any purpose other than retention, demonstration, or display while being held for sale in the regular course of business.
- ☐ The above property was purchased for resale and is presently in resale inventory. It has not been used for any purpose other than retention, demonstration, or display while being held for sale in the regular course of business.
- ☐ The above property was purchased for leasing and tax measured by rental receipts has been paid directly to the Board with our sales tax returns.
- ☐ The above property was purchased for resale to the United States Government. In accordance with the title provisions of the U.S. Government supply contract, the U.S. Government took title to the property prior to any use of the property by us.
- ☒ The above property was purchased for our own use and not for resale, and
 - ☐ tax in the amount of _____ was paid directly to the Board with our sales tax return for the reporting period _____.
 - ☐ tax in the amount of _____ was added to the billing and remitted to the Seller.
 - ☒ the purchase is a taxable transaction and tax is applicable.

COMMENTS

NATURE OF BUSINESS Lighting Fixture Retailer		
PURCHASER'S SALES TAX PERMIT NUMBER SR AB 11-121212		PURCHASER'S NAME S.T. Vega
SIGNATURE S.T. Vega		TITLE Owner
DATE 8/12/1999	PHONE (310) 555-4545	CITY Torrance

The information provided above is subject to verification by the State Board of Equalization.

January 2000


SAMPLE BASE

[4A-2]

EXHIBIT 22

SAMPLE BASE FOR RESALE TEST- STATISICAL SAMPLE

SCHEDULE	4A-2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
REF	Sample		Amount Questioned	Comments				
	Invoice Number	Invoice Amount						
1	101	26.00		(1)				
2	109	46.00		(1)				
3	177	100.00		(1)				
4	179	75.00		(1)				
5	195	82.00	82.00	See Sch <4A-1>				
6	199	26.00		(1)				
7	200	44.00		(1)				
8	218	85.00		(1)				
9	222	12.00		(1)				
10	234	6.00		(1)				
11	236	69.00		(1)				
12	239	30.00	30.00	See Sch <4A-1>				
13	242	60.00	60.00	See Sch <4A-1>				
14	243	3.00	3.00	See Sch <4A-1>				
15	245	37.00	37.00	See Sch <4A-1>				
16	257	46.00	46.00	See Sch <4A-1>				
17	270	11.00		See Sch <4A-1>				
18	274	28.00	28.00	See Sch <4A-1>				
19	275	34.00		See Sch <4A-1>				
20	280	86.00	86.00	See Sch <4A-1>				
21	294	62.00	62.00	See Sch <4A-1>				
								
335	680	115.00	115.00	See Sch <4A-1>				
336	699	44.00	44.00	See Sch <4A-1>				
337	702	64.00	64.00	See Sch <4A-1>				
338	784	35.00	35.00	See Sch <4A-1>				
339	791	100.00	100.00	See Sch <4A-1>				
340	805	76.00	76.00	See Sch <4A-1>				
341	816	50.00	50.00	See Sch <4A-1>				
342	866	40.00	40.00	See Sch <4A-1>				
343	867	38.00	38.00	See Sch <4A-1>				
344	893	165.00	165.00	See Sch <4A-1>				
345	905	76.00	76.00	(1)				
346	916	5.00		(1)				
347	966	2.00		(1)				
348	967	64.00		(1)				
349	982	775.00		(1)				
350	983	64.00		(1)				
TOTAL		6,007.00	1,470.00		(1)	VALID SALE FOR RESALE SUPPORTED WITH TIMELY RESALE CERTIFICATE.		
		<4A>	<4A-1 page 1>					

Note:

Not all transactions are scheduled
and the totals will not foot.Copy to Taxpayer
Date: _____

STATISTICAL SAMPLE EVALUATION

[4B] EXHIBIT 23

STAT SAMPLE EVALUATION

SCHEDULE	4B
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
REF				UNITS	DOLLARS	SAMPLE DIFFERENCES	DIFFERENCES SQUARED	
1	POPULATION (N):			1,575	29,828	30.00	900.00	
2	SAMPLE (n):			350	6,007	60.00	3,600.00	
3	DIFFERENCES (d):			10	351	3.00	9.00	
4	SUM OF DIFFERENCES SQUARED:			15,355		37.00	1,369.00	
5						24.00	576.00	
6	MEAN:			\$1.00		23.00	529.00	
7						24.00	576.00	
8	STANDARD DEVIATION:			\$6.60		42.00	1,764.00	
9						44.00	1,936.00	
10	STANDARD ERROR:			\$0.31		64.00	4,096.00	
11						351.00	15,355.00	
12	INTERVAL AT 80% CL:			\$0.40				
13	INTERVAL AT 90% CL:			\$0.51				
14	INTERVAL AT 95% CL:			\$0.61				
15								
16	INTERVAL AS % OF MEAN:							
17	AT 80%			39.70%				
18	AT 90%			51.02%				
19	AT 95%			60.80%				
20								
21	AVE. POPULATION UNIT			19				
22								
23	AVE. SAMPLE UNIT			17				
24								
25	PERCENT OF ERROR:			5.8473%				
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

LABOR SALES SUMMARY

SCHEDULE	6
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H	I	J	K	L
		<1A>	<1C>	<6A>	(B+C-D)	<414>	(F-E)			<6A>	(I+J)	<1>
										ANALYSIS OF DIFFERENCE		
REF	PERIOD	RECORDED LABOR SALES	UNRECORDED LABOR SALES	DISALLOWED LABOR SALES	AUDITED LABOR SALES	CLAIMED LABOR SALES	DIFFERENCE			DISALLOWED CLAIMED LABOR	TOTAL	CONTRA TOTAL SALES
1	3Q-98	1,548		588	960	1,548	588			588	588	
2	4Q-98	1,132		449	683	1,132	449			449	449	
3	1Q-99	1,277	500	223	1,554	1,277	-277			205	205	(-500)
4	TOTAL	3,957	500	1,260	3,197	3,957	760			1,242	1,242	(-500)
5										*	<414-A2>	<CONTRA LINE 1>

VERIFICATION COMMENTS**TYPE OF TRANSACTION**

Labor sales were relatively few in number. Most labor sales involve repairs, yet, a few fabrication labor sales were disclosed. For repairs, customers send the items to either one of the taxpayer's locations and then the repaired items are shipped by the taxpayer back to the customer.

SOURCE OF DATA

Sales Journal and sales invoices for the audit period and other related documentation.

VERIFICATION

Labor sales were examined on an actual basis for the audit period since there were a relatively small number of labor sales. Purchase orders, sales invoices, and job sheets were examined to determine the taxable and non-taxable elements of each job. Disallowed labor sales were scheduled on <6A>.

FINDINGS

- A) Fabrication labor claimed as exempt repair labor.
- B) Repair materials erroneously recorded as repair labor.

Note:

The * referenced above refers to the upload schedule 12 and is to be broken out by separate non-compliance codes.

All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above.

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

QUARTERLY ANALYSIS OF DISALLOWED LABOR SALES

[6A]

EXHIBIT 25

PAGE 1 OF 2

Quarterly Analysis of
Disallowed Labor Sales

SCHEDULE: 6A page 1 of 2
PERMIT 12-121212
AUDITOR J. C. CONLON
DATE 09/09/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A	B	C	D	E	
		<6A-1>	<6A-1>	<6A-1>	
		QUESTIONED LABOR SALES	ADDITIONAL TAXABLE LABOR SALES	ADDITIONAL TRANSIT TAX MEASURE	
		Data			
Years	DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE	
1998	Qtr1				
	Qtr2				
	Qtr3	588	588	510	
	Qtr4	449	449	400	
1999	Qtr1	223	223	18	
	Qtr2				
	Qtr3				
	Qtr4				
Grand Total		1,260	1,260	928	

<6>

Copy to Taxpayer
Date: _____

January 2000

QUARTERLY ANALYSIS OF DISALLOWED LABOR SALES

EXHIBIT 25

PAGE 2 OF 2

District Analysis of Labor
Sales Disallowances

SCHEDULE	6A
PERMIT	12-121212
AUDITOR	J. C. Conlon
DATE	09/09/1999

	A	B	C	D	E	F	G
			<6A-1>	<6A-1>	<6A-1>	<6A-1>	<6A-1>
REF			LACT	LATC	BART	SFPF	SFTA
1			Data				
2	Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFPF	Sum of SFTA
3	1998	Qtr1					
4		Qtr2					
5		Qtr3	484	484	26	26	26
6		Qtr4	395	395	5	5	5
7	1999	Qtr1	18	18			
8		Qtr2					
9		Qtr3					
10		Qtr4					
11	Grand Total		897	897	31	31	31
12			<A8.2>	<A8.1>			

Copy to Taxpayer
Date: _____

January 2000

SALES TO U.S. GOVERNMENT (414C)

[7] EXHIBIT 27

BOE-414-C FRONT REV. 19 (9-89)

REPORT OF EXAMINATION OF RECORDS

SALES AND USE TAXES

STATE BOARD OF EQUALIZATION

DEPARTMENT OF BUSINESS TAXES

(* BLOCKS ARE FOR HEADQUARTERS USE)

Sch 7

NAME OF TAXPAYER				ACCOUNT NUMBER SR | AC | 12-121212				DOC. NUM.	
BUSINESS ADDRESS FOR UNREGISTERED ACCTS.				<input type="checkbox"/> CHECK IF LEGAL		DATE OF REPORT		R.G. YEAR	R.G. CODE
NAME AND TITLE OF REPRESENTATIVE				PERIOD EXAMINED FROM TO:				O.M.A.	
IS TAXPAYER'S PERMIT CORRECT? <input type="checkbox"/> YES <input type="checkbox"/> SEE COMMENTS		BUS. CODE	ACTIVE <input type="checkbox"/> 1 <input type="checkbox"/> 2	C.O.	BT-406 PREPARED <input type="checkbox"/> YES <input type="checkbox"/> NO		ID	CLASS	AUDITOR
CLASS OF BUSINESS				DISTRICT REVIEWER				DATE OF REVIEW	
				* MO./YR. TRANS.				* PROCESSED BY	
								SUPERVISOR	
								CELL	

VERIFICATION	
B RECORDS: <input type="checkbox"/> D.E. <input type="checkbox"/> S.E. <input type="checkbox"/> ADEQUATE <input type="checkbox"/> INTERNAL CONTROLS <input type="checkbox"/> SEE COMMENTS	LOCATION (IF OTHER THAN B.A.)

C	REPORTED MEASURE OF STATE TAX THOUSANDS OF \$	MARK UP TESTS ON <input type="checkbox"/> GROSS <input type="checkbox"/> EX TAX <input type="checkbox"/> TAXABLE <input type="checkbox"/> TAX INCLUDED		OTHER ITEMS VERIFIED AS REPORTED OR INAPPLICABLE	
	REPORTED SALES CONSISTENT WITH	FROM TO RATE		CAPITAL ASSET	
	<input type="checkbox"/> BOOKS <input type="checkbox"/> INCOME TAX RETURNS <input type="checkbox"/> CASH RECEIPTS			<input type="checkbox"/> SALES <input type="checkbox"/> EXPENSE CREDITS	
	<input type="checkbox"/> EXPENSES <input type="checkbox"/> SIZE OF BUSINESS			<input type="checkbox"/> DELIVERY <input type="checkbox"/> FABRICATION	
	<input type="checkbox"/> SALES TAX ACCRUAL ACCOUNT			<input type="checkbox"/> CHARGES <input type="checkbox"/> LABOR	
				<input type="checkbox"/> TRADE-INS <input type="checkbox"/> REPOSSESSIONS	
				<input type="checkbox"/> TRANSIT TAX <input type="checkbox"/> SEE COMMENTS	

D	<input type="checkbox"/> CAPITAL ASSET ADDITIONS	<input type="checkbox"/> CONSUMABLE SUPPLIES	<input type="checkbox"/> RENTAL EQUIPMENT	<input type="checkbox"/> PERSONAL USE
	<input type="checkbox"/> INVENTORY WITHDRAWALS	<input type="checkbox"/> CHARGES TO EXPENSES	<input type="checkbox"/> ADVERTISING	<input type="checkbox"/> LOCAL USE TAX
	ARE REPORTED ITEMS? <input type="checkbox"/> ACTUAL <input type="checkbox"/> ESTIMATED <input type="checkbox"/> SEE COMMENTS			

E	ITEMS	CLAIMED	NETTED	TRACED INTO RECORDS FOR PERIODS	SPOT TESTED	OTHER VERIFICATION
	Sales to U.S. Government	X		Audit Period		U.S. Government Purchase Orders

F	DATE FORM BT-523 PREPARED TO CLEAR DELINQUENCIES.	BT-502 PREPARED?	<input type="checkbox"/> YES <input type="checkbox"/> NO
	IF LOCAL TAX REALLOCATION IS INVOLVED, IS FORM BT-414-L ATTACHED?	<input type="checkbox"/> REFUND CLAIM INVOLVED	
	LIST ALL OTHER BUSINESS TAX PERMITS HELD BY TAXPAYER ON WHICH CONCURRENT AUDITS HAVE BEEN MADE.	<input type="checkbox"/> SEE COMMENTS	
	<input type="checkbox"/> VERIFY TAX PAYMENTS (GIVE PERIODS AND AMOUNTS: SEE A.M. SECTION 0205.60) IF TAX PAYMENT MADE UNDER DIFFERENT PERMIT, INDICATE NUMBER.		
	COMMENTS REGARDING CIGARETTE TAX INDICIA INSPECTION:		

USE REVERSE SIDE FOR ADDITIONAL COMMENTS

INTERSTATE AND FOREIGN COMMERCE SALES SUMMARY

[8]

EXHIBIT 28

INTERSTATE AND FOREIGN COMMERCE
SALES SUMMARY

SCHEDULE	8
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
		<1A>	<8A>	(B-C)	<414>	(E-D)		
		INTERSTATE COMMERCE SALES						INTERSTATE
REF	PERIOD	RECORDED	DISALLOWED	AUDITED	CLAIMED	DIFFERENCE		SALES DISALLOWED
1	3Q-98	800	495	305	800	495		495
2	4Q-98	3,620	1,420	2,200	3,620	1,420		1,420
3	1Q-99	2,810	835	1,975	2,810	835		835
4	TOTAL	7,230	2,750	4,480	7,230	2,750		2,750
5						*		<414-A2>

VERIFICATION COMMENTSTYPES OF TRANSACTIONS

The taxpayer makes a relatively small number of sales to customers located out of state. All goods shipped out of state are shipped via common carrier.

SOURCE OF DATA

Sales journal, sales invoices, and bills of lading for the audit period. U. S. Customs export declarations. Other related documentation.

VERIFICATION

Interstate commerce sales were examined on an actual basis for the audit period since the total number of transactions was small in number. Claimed interstate sales were traced to shipping documents. Disallowed interstate commerce sales were scheduled on <8A>.

FINDINGS

A) Merchandise was shipped via common carrier to a warehouse in San Diego as a collection point for other goods before being shipped out of the country.

Instructional Note:

Amounts shown in column "C" were transcribed from the detailed supporting schedule 8A (not shown).

Note:

The * referenced above refers to the upload schedule 12 and is to be broken out by separate non-compliance codes.

Copy to Taxpayer
Date: _____

BAD DEBTS SUMMARY

[10] EXHIBIT 29

BAD DEBTS SUMMARY

SCHEDULE	10
PERMIT	12-121212
AUDITOR	J.C. CONLON
DATE	09/15/1999

	A	B	C	D	E	F	G	H	I
		<G/L>	<10A>	(B-C)	<414>	(E-D)			
		BAD DEBTS					ANALYSIS OF DIFFERENCE		
REF	PERIOD	RECORDED	DISALLOWED	AUDITED	CLAIMED	DIFFERENCE		DISALLOWED BAD DEBTS	
1	3Q-98								
2	4Q-98								
3	1Q-99	6,311	3,468	2,843	6,311	3,468		3,468	
4	TOTAL	6,311	3,468	2,843	6,311	3,468		3,468	
5						*		<414-A2>	

VERIFICATION COMMENTS**TYPES OF TRANSACTIONS**

Taxpayer writes off bad debts on an actual basis. Amounts written off are claimed on the federal income tax returns.

SOURCE OF DATA

Accounts receivable ledger, sales invoices, and sales tax return worksheets.

VERIFICATION AND FINDINGS

Accounts receivable of \$8,406 from ABC Corp., bankrupt, were written off to the allowance for bad debts account on 1-1-99. The claimed amount was traced to the sales tax return worksheet and to the original sales invoices. Exempt labor sales, etc., were erroneously included in the amount claimed. ABC Corp. was located in Newport Beach and merchandise was shipped to ABC's location. When claiming the bad debt deduction the taxpayer adjusted transit tax measure on line A5 of the return; ABC's sales were subject to the OCTA transit tax.

Instructional Note:

Amounts shown in column "C" were transcribed from the detailed supporting schedule 10A (not shown). Describe disallowed bad debts on BT-414-A as "Excess of Bad Debts Deduction Over Taxable Sales - Quarter Ended 3-31-99".

Note:

The * referenced above refers to the upload schedule 12 and is to be broken out by separate non-compliance codes.

Copy to Taxpayer
Date: _____

SALES TO AIRCRAFT COMMON CARRIERS

[18] EXHIBIT 30

SALES TO AIRCRAFT COMMON CARRIERS
SUMMARY

SCHEDULE	16
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	I	J	K	
		<S/J>	<16A>	(B-C)	<414>	(E-D)		<-----16A----->			
REF	PERIOD	SALES TO COMMON CARRIERS					ANALYSIS OF DIFFERENCE				
		RECORDED *							OFFICE AND EQUIP. SUPPLIES	NOT COMMON CARRIER	
1	3Q-98	1,400	839	561	1,400	839		31	640		
2	4Q-98	1,850	1,350	500	1,850	1,350		1,080			
3	1Q-99	1,252	295	957	1,252	295		76	160		
4	TOTAL	4,502	2,484	2,018	4,502	2,484		1,187	800		
5											
6						<414-A1>		<-----A8.2----->			
								**	**		

VERIFICATION COMMENTSTYPES OF TRANSACTIONS

Taxpayer makes sales of electrical components for aircraft and general operational use.
All sales were made in Los Angeles.

SOURCE OF DATA

Sales journal, exemption certificates, sales invoices, and purchase orders.

FINDINGS

Claimed sales to aircraft common carriers were examined on an actual basis for the audit period because the total number of transactions were minimal. Exemption certificates were reviewed to verify the claimed deductions. Auditor noted several claimed exemptions that were not supported by an exemption certificate. Further review of the records and discussion with the taxpayer disclosed that these sales were to firms that were not aircraft common carriers <16A>. In addition, the examination disclosed sales to aircraft common carriers that were not used or consumed directly and exclusively in the carriage of persons or property <16A>.

* Recorded as a memo listing in the sales journal.

Instructional Note:

Amounts shown in column "C" were transcribed from the detailed supporting schedule 16A (not shown).

Note:

The ** referenced above refers to the upload schedule 12 and is to be broken out by separate non-compliance codes.

Copy to Taxpayer
Date: _____

BART TAXABLE MEASURE SUMMARY

[A8.1] EXHIBIT 31

BART TAXABLE MEASURE SUMMARY

SCHEDULE	A8.1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

REF	A	B	C	D	E	F	G	H	I	J	K
		<BOE-414>	<1E>	<1C>	<2A>	<2B>	<A8.1A>	<6A>	(B..H)	<BOE-401>	(I-J)
	PERIOD	REPORTED	UNREPORTED SALES TO EMPLOYEES	UNRECORDED SALE	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE-TAX	DISALLOWED RESALES	MATERIALS CLAIMED AS LABOR	AUDITED	REPORTED	DIFFERENCE
1	3Q-98	7,865	77		130	85	117	26	8,300	7,865	435
2	4Q-98	4,292	65		170	240	159	5	4,931	4,292	639
3	1Q-99	2,105	58	400	95	129	141		2,928	2,105	823
4	TOTAL	14,262	200	400	395	454	417	31	16,159	14,262	1,897

<414-A1>

VERIFICATION COMMENTSTYPE OF TRANSACTIONS

The taxpayer has two business locations: Los Angeles and San Francisco. Sales are made in both transit districts and outside of the districts. The taxpayer is not engaged in business in any other transit districts.

VERIFICATION AND FINDINGS

The auditor noted any transactions subject to transit tax in the state tax workpapers. For detail of verification performed, see the referenced state tax schedules.

Disallowed resales subject to BART tax were calculated based on the ratio of disallowed resales subject to transit tax to total resales tested. There were no unusual BART transactions noted in the resale examination. The periods tested were representative of the audit period with regard to the type, number and size of transit district transactions tested.

(1) Recorded as a memo listing in the sales journal.

Copy to Taxpayer
Date: _____

DISALLOWED RESALES SUBJECT TO BART TAX

[A8.1A]

EXHIBIT 32

DISALLOWED RESALES SUBJECT TO BART TAX

SCHEDULE	A8.1A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<1A>	<A8.1A-1>	(B x C)				
REF	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED SALES FOR RESALE				
1	3Q-98	8,372	1.40%	117				
2	4Q-98	11,359		159				
3	1Q-99	<u>10,097</u>	▼	<u>141</u>				
4	TOTAL	<u><u>29,828</u></u>		<u><u>417</u></u>				
5				<A8.1>				
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

PERCENTAGE OF DISALLOWANCE OF RESALES SUBJECT TO BART TAX

PERCENTAGE OF DISALLOWANCE OF
RESALES SUBJECT TO BART TAX

[A8.1A-1] EXHIBIT 33

SCHEDULE	A8.1A-1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<4A>	<4>	(C / B)				
REF	PERIOD	TOTAL RESALES TESTED	BART DISALLOWED PER TEST	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6.007	84.00	1.40%				
3				<A8.1A>				
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

LACT TAXABLE MEASURE SUMMARY

SCHEDULE	A8.2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H	I	J	K	L	M
<B0E-414>	<1E>	<2A>	<2B>	<A8.2A>	<6A1>	<-----16----->	SUM(B..I)	<B0E-414>	(J-K)			
DIFFERENCES												
REF	PERIOD	REPORTED	SALES TO EMPLOYEES	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE-TAX	DISALLOWED RESALES	DISALLOWED LABOR SALES	OFFICE SUPPLIES TO COMMON CARRIERS	DISALLOWED COMMON CARRIER SALES	AUDITED	REPORTED	DIFFERENCE
1	3Q-98	10,705	248	131	190	148	484	39	800	12,745	10,705	2,040
2	4Q-98	9,885	95	81	109	201	395	1,350	0	12,116	9,885	2,231
3	1Q-99	7,248	157	66	749	179	18	95	200	8,712	7,248	1,464
4	TOTAL	27,838	500	278	1,048	528	897	1,484	1,000	33,573	27,838	5,735

<414-A1>

VERIFICATION COMMENTS

TYPES OF TRANSACTIONS

Refer to comments on <A8.1>

VERIFICATION AND FINDINGS

During the audit the auditor noted many transactions subject to district tax. For detail of verification performed see the referenced "State Tax" schedules.

Disallowed resales subject to LACT/LATC tax were calculated based on the ratio of disallowed resales subject to transit tax to total resales tested. There were no unusual LACT/LATC transactions noted in the resales examination. The periods tested were representative of the audit period with regard to the type, size and number of transit district transactions tested.

(1) Recorded as a memo listing in the sales journal.

Copy to Taxpayer
Date: _____

January 2000

LACT TAXABLE MEASURE SUMMARY

AUDIT WORKING PAPERS

[A8.2]

EXHIBIT 34

DISALLOWED REALES SUBJECT TO LACT TAX

[A8.2A]

EXHIBIT 35

DISALLOWED REALES SUBJECT TO LACT TAX

SCHEDULE	A8.2A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<1A>	<A8.2A-1>	(B x C)				
REF	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED SALES FOR REALE				
1	3Q-98	8,372	1.77%	148				
2	4Q-98	11,359	↓	201				
3	1Q-99	10,097		179				
4	TOTAL	<u>29,828</u>		<u>528</u>				
5				<A8.2>				
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

**PERCENTAGE OF DISALLOWANCE OF
RESALES SUBJECT TO LACT TAX**

PERCENTAGE OF DISALLOWANCE OF
RESALES SUBJECT TO LACT TAX

[A8.2A-1] EXHIBIT 36

SCHEDULE	A8.2A-1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<4A>	<4>	(C / B)				
REF	PERIOD	TOTAL RESALES TESTED	LACT/LATC DISALLOWED PER TEST	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6,007	106.35	1.77%				
3				<A8.2A>				
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

INDEX TO AUDIT WORKING PAPERS

[BOE-495]

EXHIBIT 37

State of California

Board of Equalization

INDEX TO AUDIT WORKING PAPERS

Auditor J. C. Conlon Date 10/01/1999

Permittee ABC Company Account Number: SR AC 12-121212

SCHEDULE NUMBER	WORKSHEET NAME	TITLE OF SCHEDULE	PAGES		(X) If Copy To T.P.	
			FROM	- TO		
414	414	AUDITOR'S WORKSHEET	1		YES	
12	12	TAXABLE MEASURE UNDERSTATED	1	7		38
12A	12A	RECORDED SALES	1			39
12B	12B	MARK-UP ANALYSIS - TAXABLE SALES	1			40
12C	12C	TOTAL SALES RECONCILIATION -FITR	1			41
12D	12D	UNRECORDED SALES	1			42
12E	12E	SALES TO EMPLOYEES	1			43
12F	12F	UNREPORTED SALES OF CAPITAL ASSETS TRANSFERS FROM EX-TAX INVENTORY	1			44
12G	12G	FOR OWN USE	1	2		45
12H	12H	ADDITIONAL CONSUMABLE SUPPLIES SUBJECT TO USE TAX	1			46
12H-1	12H-1	QUESTIONED EX-TAX PURCHASES OF CONSUMABLE SUPPLIES	1			47
12I	12I	SALES FOR RESALE RECONCILIATION	1	2		48
12J	12J	DISALLOWED CLAIMED SALES FOR RESALE	1			49
12J-1	12J-1	PERCENTAGE OF DISALLOWANCE - RESALES	1	3		50
12J-1a	12J-1a	QUESTIONED CLAIMED RESALE SALES - STATISTICAL SAMPLE	1			51
12J-1a-1	12J-1a-1	STATEMENT OF PROPERTY PURCHASED WITHOUT TAX (XYZ LETTER)	1			52
12J-2	12J-2	STATISTICAL SAMPLE EVALUATION - RESALE	1			53
12K	12K	DISALLOWED CLAIMED LABOR SALES	1			54
12K-1	12K-1	QUESTIONED CLAIMED LABOR SALES	1			55
12K-2	12K-2	DISALLOWED CLAIMED LABOR SALES BY TRANSIT TAXES	1			56
12L	12L	DISALLOWED CLAIMED INTERSTATE COMMERCE	1			57
12M	12M	DISALLOWED CLAIMED BAD DEBTS	1			58
16	16	DISALLOWED CLAIMED LOCAL TAX ON SALES TO AIR COMMON CARRIERS	1			59
A8.1	A8.1	TAXABLE MEASURE UNDERSTATED - BART	1			60
A8.1A	A8.1A	DISALLOWED REALES SUBJECT TO BART TAX	1			61
A8.1A-1	A8.1A-1	PERCENTAGE OF DISALLOWANCE OF RESALES SUBJECT TO BART TAX	1			62
A8.2	A8.2	TAXABLE MEASURE UNDERSTATED - LACT	1			63
A8.2A	A8.2A	DISALLOWED REALES SUBJECT TO LACT TAX	1			64
A8.2A-1	A8.2A-1	PERCENTAGE OF DISALLOWANCE OF RESALES SUBJECT TO LACT TAX	1			65
★ Audit Manual Exhibit Number						

TAXABLE MEASURE
UNDERSTATED -
STCNY

Case Id: 11111
Account Nu: 12121212
Schedule Ty: S
Juris Code: STCNY

SCHEDULE 12 page 1 of 7
PERMIT SR AC 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
ITEM CODE	STCNY				1	2	3	4	5	6	7	10	11	12
NC CODE	NEW 5.00%				0301	0104	1602	0202	0201	0404	0403	0601	0806	1101
REF	< 414-M >	(B+D)	(E..N)	<12D>	<12E>	<12F>	<12G>	<12H>	<12I>	<12J>	<12K>	<12L>	<12M>	
REF	Period	REPORTED TAXABLE MEASURE	AUDITED TAXABLE MEASURE	TOTAL TAXABLE DIFFERENCE	UNRECORDED TAXABLE SALES	UNREPORTED SALES TO EMPLOYEES	UNREPORTED SALE OF FIXED ASSETS	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE TAX	ERRORS IN CLAIMED SALES FOR RESALE	DISALLOWED CLAIMED RESALES	DISALLOWED CLAIMED LABOR	DISALLOWED CLAIMED INTERTSTATE SALES	DISALLOWED CLAIMED BAD DEBTS
1	3Q-98	47,025	49,459	2,434		325		261	275		490	588	495	
2	4Q-98	43,843	48,773	4,930		160	1,600	251	349	36	665	449	1,420	
3	1Q-99	34,350	41,121	6,771	400	215		161	878		591	223	835	3,468
4														
5	Total:	125,218	139,353	14,135	400	700	1,600	673	1,502	36	1,746	1,260	2,750	3,468
6				< 414A-1 >										
7														

Copy to Taxpayer
Date: _____

January 2000

TAXABLE MEASURE
UNDERSTATED - LOCAL

Case Id: 11111
Account Number: 12121212
Schedule Type: S
Juris Code: LOCAL

SCHEDULE 12 page 2 of 7
PERMIT SR AC 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
ITEM CODE		LOCAL			1	2	3	4	5	6	7	10	11	12	13
NC CODE		NEW 1.00%			0301	0104	1602	0202	0201	0404	0403	0601	0806	1101	1013
REF		< 414-M >	(B+D)	(E..O)	<12D>	<12E>	<12F>	<12G>	<12H>	<12I>	<12J>	<12K>	<12L>	<12M>	<16>
REF	Period	REPORTED TAXABLE MEASURE	AUDITED TAXABLE MEASURE	TOTAL TAXABLE DIFFERENCE	UNRECORDED TAXABLE SALES	UNREPORTED SALES TO EMPLOYEES	UNREPORTED SALE OF FIXED ASSETS	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE TAX	ERRORS IN CLAIMED SALES FOR RESALE	DISALLOWED CLAIMED RESALES	DISALLOWED CLAIMED LABOR	DISALLOWED CLAIMED INTERSTATE	DISALLOWED CLAIMED BAD DEBTS	DISALLOWED CLAIMED COMMON CARRIER
1	3Q-98	47,025	50,298	3,273		325		261	275		490	588	495		839
2	4Q-98	43,843	50,123	6,280		160	1,600	251	349	36	665	449	1,420		1,350
3	1Q-99	34,350	41,416	7,066	400	215		161	878		591	223	835	3,468	295
4															
5	Total:	125,218	141,837	16,619	400	700	1,600	673	1,502	36	1,746	1,260	2,750	3,468	2,484

< 414A-1 >

Copy to Taxpayer
Date: _____

TAXABLE MEASURE ANALYSIS

AUDIT MANUAL

TAXABLE MEASURE
UNDERSTATED - STADD

Case Id: 11111
Account Number: 12121212
Schedule Type: S
Juris Code: STADD

SCHEDULE 12 page 3 of 7
PERMIT SR AC 12-121212
AUDITOR J.C. Conlon
DATE 09/09/1999

	A	B	C	D	E	F	G	H	I	J	K	L	M	N
ITEM CODE		STADD			1	2	3	4	5	6	7	10	11	12
NC CODE		NEW 1.25%			0301	0104	1602	0202	0201	0404	0403	0601	0806	1101
REF		< 414-M >	(B+D)	(E..N)	<12D>	<12E>	<12F>	<12G>	<12H>	<12I>	<12J>	<12K>	<12L>	<12M>
		REPORTED TAXABLE MEASURE	AUDITED TAXABLE MEASURE	TOTAL TAXABLE DIFFERENCE	UNRECORDED TAXABLE SALES	UNREPORTED SALES TO EMPLOYEES	UNREPORTED SALE OF FIXED ASSETS	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE TAX	CLAIMED SALES FOR RESALE	DISALLOWED CLAIMED RESALES	DISALLOWED CLAIMED LABOR	DISALLOWED CLAIMED INTERTSTATE	DISALLOWED CLAIMED BAD DEBTS
1	3Q-98	47,025	49,459	2,434		325		261	275		490	588	495	
2	4Q-98	43,843	48,773	4,930		160	1,600	251	349	36	665	449	1,420	
3	1Q-99	34,350	41,121	6,771	400	215		161	878		591	223	835	3,468
4														
5	Total:	125,218	139,353	14,135	400	700	1,600	673	1,502	36	1,746	1,260	2,750	3,468
6				< 414-A-1 >										
7														

TAXABLE MEASURE ANALYSIS

AUDIT WORKING PAPERS

Copy to Taxpayer
Date: _____

January 2000

TAXABLE MEASURE ANALYSIS

EXHIBIT 38

PAGE 4 OF 7

TAXABLE MEASURE ANALYSIS

SCHEDULE	12 page 4 of 7
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H

REF

1

2

VERIFICATION COMMENTS

3

4

TYPES OF TRANSACTIONS

5

The taxpayer is a retailer of electrical supplies with two locations: San Francisco and Los Angeles.

6

Most sales are taxable sales to construction contractors. Other sales consist of resales to hardware

7

retailers, interstate commerce sales to out-of-state retailers, sales to the U.S. Government, and a small

8

number of sales to employees.

9

10

Sales are recorded and reported on the accrual basis. Sales tax reimbursement is added to the

11

selling price of materials sold. In January 1999, the taxpayer changed over from a manual to an

12

automated accounting system.

13

14

SOURCE OF DATA

15

General ledger, general journal, supporting journals, sales tax returns, paid bills, sales invoices,

16

and customer P.O.'s for the audit period. Resale cards, shipping documents, and other related

17

documentation also were available.

18

19

VERIFICATION AND FINDINGS

20

This examination was done on a taxable measure basis. Sales are initially recorded by the

21

taxpayer at the time of sale on numerically sequenced invoices. The invoices were hand posted to a

22

manually prepared sales journal through December 1998. Beginning January 1999 the taxpayer posted

23

sales invoices to a computer generated sales journal. Both the hand and computer generated sales

24

journals segregated sales by the type of sale; taxable, resale, repair sales, U.S. Government, and

25

interstate commerce. Separate sales journals are prepared for each location and are combined when

26

posted to the general ledger.

27

28

29

30

Copy to Taxpayer

Date: _____

TAXABLE MEASURE ANALYSIS

SCHEDULE	12 page 5 of 7
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
REF								

1

2 VERIFICATION COMMENTS - continued

3

4

5

6 Recorded sales were transcribed from the sales journal on <12A>. Sales invoices were traced
 7 into the sales journal for two complete recording cycles; July 1998 and January 1999. One unrecorded
 8 sale was noted during the changeover to the automated accounting system. See <12D> for detail of
 9 differences and additional comments. No recurring errors were indicated; so no further examination
 10 was done.

11

12 Sales journal totals were traced to the general ledger for the audit period. No errors were noted.

13

14 Recorded amounts agreed with the reported/claimed amounts except for one transposition error in
 15 claimed resales on the 4Q-98 return. See <12I> for detail of differences and additional comments.

16

17 A reconciliation of sales tax accrued and reported disclosed no differences.

18

19 Total sales were reconciled with the federal income tax returns filed during the audit period on <12C>.
 20 No material differences were disclosed and no unreported sales were indicated.

21

22 A mark-up analysis on taxable sales was done on <12B>. No unreported taxable sales were
 23 indicated.

24

25 The taxpayer failed to report sales of resale inventory to employees. These sales were transcribed
 26 from the cash receipts journal for the audit period. See <12E> for detail of differences and additional
 27 comments.

28

29 The auditor examined the fixed asset accounts for the audit period. One unreported sale of a forklift was
 30 disclosed. See <12F> for detail of differences and additional comments.

Copy to Taxpayer
 Date: _____

TAXABLE MEASURE ANALYSIS

EXHIBIT 38
PAGE 6 OF 7

TAXABLE MEASURE ANALYSIS

SCHEDULE	12 page 6 of 7
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H

REF

1

2

VERIFICATION COMMENTS - continued

3

4

USE TAX

5

The auditor examined paid bills for the audit period and scheduled all ex-tax supply purchases.

6

See <12H> for detail of differences and additional comments.

7

8

The taxpayer self-consumed some of the ex-tax inventory. Self consumed amounts were transcribed from the general ledger for the audit period. See <12G> for detail of differences and additional comments.

10

11

No ex-tax fixed asset purchases occurred during the audit period.

12

13

RESALES

14

The auditor used a statistical sample on sales for resale. Resales were traced to resale cards on file and questioned items were scheduled. See <12J> for detail of differences and additional comments.

16

Questioned items were further investigated by tracing them to purchase orders or by sending out XYZ letters. A percentage of disallowance for resales was calculated and applied to total recorded resales.

18

No additional errors in recorded resales were indicated.

19

20

LABOR

21

Labor sales were relatively few in number, so the auditor examined them on an actual basis.

22

Disallowed labor sales consisted of fabrication labor claimed as repair and total repair invoices including materials and tax reimbursement, claimed as repair labor. See <12K> for detail of differences and additional comments. No other errors in claimed labor sales were indicated.

24

25

26

INTERSTATE COMMERCE

27

Interstate commerce sales were few in number and were examined on an actual basis. Three foreign commerce sales made to the same customer were disallowed since they were delivered in California. See <12L> for detail of differences and additional comments.

29

30

Copy to Taxpayer
Date: _____

TAXABLE MEASURE ANALYSIS

EXHIBIT 38

PAGE 7 OF 7

TAXABLE MEASURE ANALYSIS

SCHEDULE	12 page 7 of 7
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H

REF

1

2 VERIFICATION COMMENTS - continued

3

4 BAD DEBTS

5

6 The taxpayer claimed one bad debt during the audit period. The auditor traced the amount claimed
 7 to the accounts receivable subsidiary journal and to the actual invoices written off. See <12M> for detail
 8 of differences and additional comments.

9

10 U. S. GOVERNMENT

11

12 The auditor examined sales to the U. S. Government on an actual basis for the audit period. No
 13 errors were disclosed.

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

Copy to Taxpayer
 Date: _____

RECORDED SALES

[12A] EXHIBIT 39

RECORDED SALES

SCHEDULE	12A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		GENERAL LEDGER					(B+C+D+E+F)	
REF	PERIOD	TAXABLE <EX-TAX>	RESALE	U.S. GOV'T	INTERSTATE	LABOR	TOTAL	
1	JUL	13,007	3,133	350	140	695		
2	AUG	18,003	2,076	180	620	478		
3	SEP	16,015	3,163	420	40	375		
4	3Q-98	47,025	8,372	950	800	1,548	58,695	
5								
6	OCT	19,273	2,486	389	900	710		
7	NOV	16,236	2,874	576	1,140	208		
8	DEC	8,334	5,999	435	1,580	214		
9	4Q-98	43,843	11,359	1,400	3,620	1,132	61,354	
10								
11	JAN	9,209	2,157	675	1,865	452		
12	FEB	11,765	3,868	200	420	617		
13	MAR	13,376	4,072	545	525	208		
14	1Q-99	34,350	10,097	1,420	2,810	1,277	49,954	
15	TOTAL	125,218	29,828	3,770	7,230	3,957	170,003	
16		<12B>	<12B>	<12B>	<12B>			
17			<12I>					
18			<12J>					
19			<A8.1A>					
20			<A8.2A>					

Instructional Note:

In general, figures and other data from taxpayer's records should not be transcribed to the audit working papers without good reason. However, for illustration purposes, a summary schedule of recorded sales has been prepared for this sample audit.

Copy to Taxpayer
Date: _____

MARKUP ANALYSIS

[12B] EXHIBIT 40

MARK-UP ANALYSIS - TAXABLE SALES

SCHEDULE	12B
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
REF							07/01/1998 TO 03/31/1999	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
32								
33								
34								
35								

	<12A> TAXABLE SALES <EX-TAX>	125,218
	(*) COST OF SALES	112,932
	LESS: COST OF SALES @ 10% MARK-UP	
	<12A> REALES	29,828
	<12A> U.S.GOV'T	3,770
	<12A> INTERSTATE	<u>7,230</u>
	40,828 x .909090	<u>37,116</u>
	(Line 4-10) COST OF TAXABLE SALES	<u>75,816</u>
	(Line 2-12) GROSS PROFIT	<u>49,402</u>
	(Line 14/12) MARK-UP	<u>65.16%</u>
	(*) BEGINNING INVENTORY	0
	TOTAL PURCHASES:	
	3Q-98	41,787
	4Q-98	42,470
	1Q-99	<u>34,008</u>
		118,265
	LESS:	
	ENDING INVENTORY	<u>-5,333</u>
	COST OF SALES	<u>112,932</u>
	<Line 4>	

	<u>COMMENTS</u>
	Discussion with sales manager indicated that sales for resale, sales to U.S. Gov't., and Interstate sales were made at considerably less mark-up than taxable sales. He estimated that the average mark-up on these sales was 10%. A test of a few invoices substantiated the estimate. Cost of these sales has been eliminated at the 10% mark-up so that a computation could be made of the mark-up on taxable sales as above.

TOTAL SALES RECONCILIATION

[12C] EXHIBIT 41

TOTAL SALES
RECONCILIATION -FTR

SCHEDULE	12C
PERMIT	SR AC 12-121212
AUDITOR	J.C. Conlon
DATE	09/09/1999

	A	B	C	D	E
REF			7/1/97 to 12/31/97	1998	1999
1	GROSS RECEIPTS		120,050	840,350	882,368
2	BEGINNING INVENTORY			4,300	30,100
3	PURCHASES		82,998	580,986	610,035
4	COST OF LABOR				
5	OTHER COSTS				
6	ENDING INVENTORY		4,300	30,100	31,605
7	COST OF GOODS SOLD	(L2+L3+L4+L5-L6)	78,698	555,186	608,530
8	GROSS PROFIT	(L1-L7)	41,352	285,164	273,838
9	OTHER INCOME		1,600		
10	TOTAL INCOME	(L8+L9)	42,952	285,164	273,838
11	DEDUCTIONS:				
12	COMPENSATION TO OFFICERS		12,000	60,000	63,000
13	SALARIES AND WAGES		15,000	75,000	78,750
14	REPAIRS AND MAINTENANCE			1,500	1,575
15	BAD DEBTS			25,000	26,250
16	RENTS				
17	TAXES AND LICENSES				
18	INTEREST			1,000	1,050
19	CHARITABLE CONTRIBUTIONS			300	315
20	DEPRECIATION		7,500	30,000	31,500
21	DEPLETION			15,505	16,280
22	ADVERTISING			3,450	3,623
23	PENSION, PROFIT-SHARING, EXT.			1,000	1,050
24	EMPLOYEE BENEFIT PROGRAMS			1,000	1,050
25	OTHER DEDUCTIONS		512	2,048	2,150
26	TOTAL DEDUCTIONS	(L12:L25)	35,012	215,803	226,593
27	NET INCOME	(L10-L26)	7,940	69,361	47,245
28	GROSS RECEIPTS PER FTR	(L1)	120,050	840,350	882,368
29	SALES TAX INCLUDED IN FTR GROSS RECEIPTS				
30	EX-TAX GROSS RECEIPTS REPORTED TO BOE	(414-M)	120,049	840,351	882,367
31	DIFFERENCE	(L28-L29-L30)	1	-1	1

Copy to Taxpayer
Date: _____

UNRECORDED SALES

[12D]

EXHIBIT 42

UNRECORDED SALES

SCHEDULE	12D
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

REF	INVOICE DATE	INVOICE NUMBER	CUSTOMER	DESCRIPTION	AMOUNT
1					
2	01/07/1999	2727	Peter Gabriel	Repairs and additions to interoffice	
3			1007 Sledgehammer Bl	communication system	
4			San Francisco		<u>900</u>
5					

COMMENTS

In January 1999 the taxpayer converted from manual to machine posting. Obvious posting and recording errors were made during the changeover. Journal entries were prepared to adjust for the errors; however, an invoice which had not been recorded was overlooked. In view of the nature of the error and the quality of internal control present, the error was considered to be non-recurring.

INVOICE BREAKDOWN

MATERIAL	400	<A8.1>, <12>
LABOR	<u>500</u>	
SUBTOTAL (L20+L21)	900	
TAX ON MATERIAL	<u>34</u>	
TOTAL (L22+L23)	<u>934</u>	

Copy to Taxpayer
Date: _____

SALES TO EMPLOYEES

[12E] EXHIBIT 43

SALES TO EMPLOYEES

SCHEDULE	12E
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
					(C+D)			
REF	PERIOD	REFERENCE	LOS ANGELES	SAN FRANCISCO	TOTAL			
1	JUL	CR-6	90	26	116			
2	AUG	CR-12	78	20	98			
3	SEP	CR-19	80	31	111			
4	3Q-98		248	77	325			
5								
6	OCT	CR-25	50	25	75			
7	NOV	CR-34	20	28	48			
8	DEC	CR-39	25	12	37			
9	4Q-98		95	65	160			
10								
11	JAN	CR-42	55	15	70			
12	FEB	CR-46	71	30	101			
13	MAR	CR-51	31	13	44			
14	1Q-99		157	58	215			
15	TOTALS		500	200	700			
16			<A8.2>	<A8.1>	<12>			

COMMENTS

The company has a policy of selling goods to employees out of resale inventory. Resale cards were issued for merchandise sold to employees, but, no misuse of resale certificate was indicated since the goods were intended to be resold when purchased. All employee sales are made for cash and are segregated between the two locations in the cash receipts journal.

Copy to Taxpayer
Date: _____

UNREPORTED SALES OF CAPITAL ASSETS

[12F]

EXHIBIT 44

UNREPORTED SALES OF CAPITAL ASSETS

SCHEDULE	12F
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
REF	DATE	JOURNAL ENTRY REFERENCE					Dr.	Cr.
1	11/09/98	J 11-6	Account receivable - Jack Reynolds				1,600	
2			Reserve for Depreciation				1,565	
3			Automotive equipment					2,684
4			Gain on sale of capital asset					481
5								
6			"To record sale of forklift to					
7			Jack Reynolds					
8								
9			Taxable amount					<u>1,600</u>
10								<12>
11								

COMMENTS

The above sale was made by the taxpayer's San Francisco location.
The forklift was used in the taxpayer's warehouse and delivered to the
customer in Mojave via common carrier.

Copy to Taxpayer
Date: _____

AUDIT MANUAL

TRANSFERS FROM EX-TAX INVENTORY FOR OWN USE

[12G]

EXHIBIT 45

TRANSFERS FROM EX-TAX INVENTORY
FOR OWN USE

SCHEDULE	12G
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
								(F+G)
REF	DATE	REFERENCE	DESCRIPTION			LOS ANGELES	SAN FRANCISCO	TOTAL
1	07/31/1998	J 7-19	MISC. ELECTRICAL SUPPLIES			70	38	108
2	08/31/1998	J 8-17	SAME			40	52	92
3	09/30/1998	J 9-23	SAME			21	40	61
4	3Q-98					131	130	261
5								
6	10/31/1998	J 10-17	SAME			16	38	54
7	11/30/1998	J 11-20	SAME			15	14	29
8	12/31/1998	J 12-28	SAME			50	118	168
9	4Q-98					81	170	251
10								
11	01/31/1999	J 1-14	SAME				32	32
12	02/28/1999	J 2-18	SAME			52	29	81
13	03/31/1999	J 3-25	SAME			14	34	48
14	1Q-99					66	95	161
15	TOTAL					278	395	673
16						<A8.2>	<A8.1>	<12>
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

QUARTERLY ANALYSIS OF CONSUMABLE SUPPLIES

[12H]

EXHIBIT 46

PAGE 1 OF 2

ADDITIONAL CONSUMABLE SUPPLIES
SUBJECT TO USE TAX - AUDIT PERIOD

SCHEDULE	12H PAGE 1 OF 2
PERMIT	SR AC 12-121212
AUDITOR	J.C. CONLON
DATE	09/09/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A		B	C	D	E
			<12H-1>	<12H-1>	<12H-1>
			QUESTIONED SUPPLY PURCHASES	ADDITIONAL TAXABLE SUPPLY PURCHASES	ADDITIONAL TRANSIT TAX MEASURE
			Data		
Years		DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE
1998		Qtr1			
		Qtr2			
		Qtr3	293	275	275
		Qtr4	371	349	349
1999		Qtr1	878	878	878
		Qtr2			
		Qtr3			
		Qtr4			
Grand Total			1,542	1,502	1,502

<12>

Copy to Taxpayer
Date: _____

January 2000

AUDIT MANUAL

QUARTERLY ANALYSIS OF CONSUMABLE SUPPLIES

EXHIBIT 46

PAGE 2 OF 2

ADDITIONAL CONSUMABLE SUPPLIES
SUBJECT TO USE TAX FOR AUDIT
PERIOD BY TRANSIT TAX

SCHEDULE	12H PAGE 2 OF 2
PERMIT	SR AC 12-121212
AUDITOR	J.C. CONLON
DATE	09/09/1999

A	B	C	D	E	F	G	H
<12H-1>							
		LACT	LATC	BART	SFPF	SFTA	
REF		Data					
1							
2	Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFPF	Sum of SFTA
3	1998	Qtr1					
4		Qtr2					
5		Qtr3	190	190	85	85	85
6		Qtr4	109	109	240	240	240
7	1999	Qtr1	749	749	129	129	129
8		Qtr2					
9		Qtr3					
10		Qtr4					
11	Grand Total		1,048	1,048	454	454	454
12			<A8.2>		<A8.1>		

Note:

Only LACT & BART are scheduled for illustration purposes.

Copy to Taxpayer
Date: _____

Audit Working Papers

EXHIBIT 47

Instructional Note:

In the event a taxpayer asserts that the use tax on a questioned purchase was remitted to the Board by the vendor either on his or her tax return or audit determination a ABC letter should be sent. To assist the taxpayer in satisfying their use tax obligation, the Board has developed the Form BOE-503 (hereafter called the "ABC" Letter) procedure.

Note: 2

Schedules should be printed on legal size (8.5 x 14) or to conform to 0302.08. All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above.

Date: _____

SALES FOR RESALE RECONCILIATION

[12I] EXHIBIT 48

SALES FOR RESALE RECONCILIATION

SCHEDULE	12I
PERMIT	12-121212
AUDITOR	J. C. CONLON
DATE	09/14/1999

A	B	C	D	E	F	G	H
---	---	---	---	---	---	---	---

REF	PERIOD	RECORDED RESALES	CLAIMED RESALES	DIFFERENCE	ANALYSIS OF DIFFERENCE		
						ERRORS IN PREPARING RETURNS	
		<12A>	<414>	(C - B)			
1	3Q-98	8,372	8,372	0		0	
2	4Q-98	11,359	11,395	36		36	
3	1Q-99	10,097	10,097	0		0	
4	TOTAL	29,828	29,864	36		36	

<12>

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Copy to Taxpayer
Date: _____

DISALLOWED SALES FOR RESALE

[12J]

EXHIBIT 49

PAGE 1 OF 2

DISALLOWED CLAIMED SALES FOR RESALE

SCHEDULE	12J page 1 of 2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H	I	J
		<12A>	<12J-1>	(B x C)	(B - D)	<414>	(F - E)		ANALYSIS OF DIFFERENCES	
REF	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED RESALES	AUDITED RESALES	CLAIMED RESALES	DIFFERENCE		DISALLOWED RESALES	ERRORS IN PREPARING RETURNS
1	3Q-98	8,372	5.85%	490	7,882	8,372	490		490	0
2	4Q-98	11,359		665	10,694	11,395	701		665	36
3	1Q-99	10,097	▼	591	9,506	10,097	591		591	0
4	TOTAL	29,828		1,746	28,082	29,864	1,782		1,746	36
5									<12>	

COMMENTS

A stat sample was made of sales for resale. The sample size was calculated based on the results of the block sample used in the prior audit <12J-2a> (not shown). The sample was selected using the Boards P.C. random sample program.

Sample invoices, amounts and questioned transactions are scheduled on <12J-1a>.

Resales were traced to resale cards maintained by the taxpayer. The taxpayer was able to establish that most of the questioned transactions were valid sales for resale. A percentage of disallowance (5.85%) was calculated on <12J-1>.

A portion of the disallowed resales were the result of a transposition error by the taxpayer when preparing the 4Q-98 return.

Copy to Taxpayer
Date: _____

AUDIT MANUAL

DISALLOWED SALES FOR RESALE

EXHIBIT 49

PAGE 2 OF 2

DISALLOWED SALES FOR RESALES -
BY DISTRICT

SCHEDULE	12J page 2 of 2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

REF

A	B	C	D	E	F	G	H
		LACT	LATC	BART	SFTA	SFPF	NO TRANSIT TAX
		Data					
Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFPF	Sum of SFTA	Sum of NONE
1998	Qtr1						
	Qtr2						
	Qtr3	33	33	60	60	60	0
	Qtr4	29	29	24	24	24	37
1999	Qtr1	44	44				124
	Qtr2						
	Qtr3						
	Qtr4						
Grand Total		106	106	84	84	84	161

<A8.2>

<A8.1>

Note:

Only LACT & BART are scheduled for illustration purposes.

Copy to Taxpayer
Date: _____

PERCENTAGE OF DISALLOWANCE

[12J-1]

EXHIBIT 50

PERCENTAGE OF DISALLOWANCE -
SALES FOR RESALE

SCHEDULE	12J-1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
		<12J-1a page 4>	<12J-1a>	(C / B)				
REF	PERIOD	RESALES TESTED	DISALLOWED RESALES	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6.007	351.00	5.85%				
3		<A8.1A-1>		<12J>				
4		<A8.2A-1>						
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

January 2000

QUESTIONED CLAIMED RESALE SALES - STATISTICAL SAMPLE										SCHEDULE	12J-1a						
										PERMIT	SR AC 12-1212						
										AUDITOR	J.C. CONLON						
										DATE	09/09/1999						
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	PO STATUS	ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1164 SENT	
1	08/09/1998	195	TURNER'S TOOL CO.	3434 Arrow Highway	Santa Ana, CA 92708				Envelopes	82	0	0	NONE	Resale card located	Y		
2	09/11/1998	239	OVERLAKE PRESS INC.	3433 Rosewood Road	Compton, CA 90221		C0012345		Holiday Greeting Cards	30	30	30	LACT, LATC	XYZ states taxable	Y		
3	09/18/1998	242	MESSENGER TOOLING, INC	22323 Washington Blvd	San Francisco, CA 94420				Signs	60	60	60	BART,SFTA, SFPF	No response to XYZ	Y		
4	11/21/1998	243	COLOR SERVICE INC.	3433 Hollywood Blvd	North Hollywood, CA 91606		CAL-130547		Transparency	3	3	3	LACT, LATC	No response to XYZ	Y		
5	12/27/1998	245	RALPH & COMPANY	3434 Long Arrow Highway	Mojave, CA 93503				Brass Hardware	37	37	37	NONE	XYZ states taxable	Y		
6	12/01/1998	257	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123014		Silver Foam Covers	46	0	0	NONE	XYZ states resale	Y		
7	12/05/1998	270	GREEN CORPORATION	2345 West Bridgeport Road	Los Angeles, CA 90026		ABC123612		Hangers	28	0	0	NONE	XYZ states resale	Y		
8	12/24/1998	280	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551002	NT	Solvents	86	0	0	NONE	Resale card located	Y		
9	01/05/1999	294	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551125	NT	Light Bulbs	62	0	0	NONE	Resale card located	Y		
10	01/08/1999	350	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551300	NT	Polishing Cream	20	0	0	NONE	Resale card located	Y		
11	01/12/1999	362	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4551456	NT	Miracle Wax	29	0	0	NONE	Resale card located	Y		
12	01/15/1999	372	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4562011	NT	Paint Remover	84	0	0	NONE	Resale card located	Y		
13	01/19/1999	386	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563007		Gloves	21	0	0	NONE	Resale card located	Y		
14	01/25/1999	412	LITTLE GUY INC.	5678 Fashion Center Blvd	New York, NY 67890	New York			Paint Remover	22	0	0	NONE	Supported by Bill of Lading			
15	02/02/1999	425	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97987		Hangers	12	0	0	NONE	XYZ states resale	Y		
36	02/05/1999	680	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4563578	NT	Polishing Wheels	115	0	0	NONE	Resale card located	Y		
37	02/22/1999	699	BIG BUSINESS INC.	4545 West Industry Drive	Los Angeles, CA 90021		123789456		Business Cards	44	44	44	LACT, LATC	XYZ states taxable	Y		

Copy to Taxpayer
Date: _____

SALES FOR RESALE TEST — STAT SAMPLE

AUDIT MANUAL

[12J-1A]

EXHIBIT 51

PAGE 1 OF 3

QUESTIONED CLAIMED RESALE SALES - STATISTICAL SAMPLE										SCHEDULE	12J-1a						
										PERMIT	SR AC 12-1212						
										AUDITOR	J.C. CONLON						
										DATE	09/09/1999						
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	
REF	DATE	SALES INVOICE NUMBER	CUSTOMER NAME	STREET	CITY, STATE, ZIP	SHIP TO	PO NUMBER	PO STATUS	ITEM	AMOUNT QUESTIONED	AMOUNT TAXABLE	DISTRICT MEASURE	DISTRICT CODE	COMMENT	XYZ SENT	1164 SENT	
38	02/25/1999	702	HOLLYWOOD & VEGA	4544 W. Industry Way	Mojave, CA 93502		REF4547900	NT	Trays	64	64	64	NONE	XYZ states taxable	Y		
39	02/26/1999	784	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4564000	NT	Miracle Wax	35	0	0	NONE	Resale card located	Y		
40	03/02/1999	791	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4577891		Brochures	100	0	0	NONE	Resale card located	Y		
41	03/05/1999	805	LITTLE GUY INC.	5678 Fashion Center Blvd	New York, NY 67890	New York			Paint Remover	76	0	0	NONE	Supported by Bill of Lading			
42	03/08/1999	816	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y97987		Hangers	50	0	0	NONE	XYZ states resale	Y		
43	03/09/1999	866	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578012		Business Cards	40	0	0	NONE	Resale card located	Y		
44	03/10/1999	867	HOLLYWOOD & VEGA	4544 W. Industry Way	San Diego, CA 92101		REF4578124		Polishing Cream	38	0	0	NONE	Resale card located	Y		
45	03/11/1999	893	YOUSEFFIA FASHIONS	4544 42nd Lane	Santa Ana, CA 92708		Y98783		Hangers	165	0	0	NONE	XYZ states resale	Y		
46																	
47									TOTAL:	1,470	351	351					
48												<12J-1>	<12J>				
49																	
50																	
51																	
52																	
53																	

Note:

Not all transactions are scheduled and the totals will not foot.

Schedules should be printed on legal size (8.5 x 14) or to conform to 0302.08. All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above.

Copy to Taxpayer
Date: _____

AUDIT MANUAL

SALES FOR RESALE TEST — STAT SAMPLE

EXHIBIT 51
PAGE 3 OF 3

SALES FOR RESALE TEST STATISTICAL SAMPLE

SCHEDULE	12J -1a page 3 of 3
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
	Sample							
REF	Invoice Number	Invoice Amount	Amount Questioned	Comments				
1	101	26.00		(1)				
2	109	46.00		(1)				
3	177	100.00		(1)				
4	179	75.00		(1)				
5	195	82.00	82.00	See page 1				
6	199	26.00		(1)				
7	200	44.00		(1)				
8	218	85.00		(1)				
9	222	12.00		(1)				
10	234	6.00		(1)				
11	236	69.00		(1)				
12	239	30.00	30.00	See page 1				
13	242	60.00	60.00	See page 1				
14	243	3.00	3.00	See page 1				
15	245	37.00	37.00	See page 1				
16	257	46.00	46.00	See page 1				
17	270	11.00		(1)				
18	274	28.00	28.00	See page 1				
19	275	34.00		(1)				
20	280	86.00	86.00	See page 1				
21	294	62.00	62.00	See page 1				
335	680	115.00	115.00	See page 1				
336	699	44.00	44.00	See page 1				
337	702	64.00	64.00	See page 1				
338	784	35.00	35.00	See page 1				
339	791	100.00	100.00	See page 1				
340	805	76.00	76.00	See page 1				
341	816	50.00	50.00	See page 1				
342	866	40.00	40.00	See page 1				
343	867	38.00	38.00	See page 1				
344	893	165.00	165.00	See page 1				
345	905	76.00		(1)				
346	916	5.00		(1)				
347	966	2.00		(1)				
348	967	64.00		(1)				
349	982	775.00		(1)				
350	983	64.00		(1)				
TOTAL		6,007.00	1,470.00		(1)	VALID SALE FOR RESALE SUPPORTED		

Note:

Not all transactions are scheduled and the totals will not foot.

Copy to Taxpayer
Date: _____

<12J-1>
<A8.1>
<A8.2>

AUDIT WORKING PAPERS

**STATEMENT CONCERNING PROPERTY
PURCHASED WITHOUT TAX (XYZ LETTER)**

BOE 504-CUS (1-97)

**STATEMENT CONCERNING PROPERTY PURCHASED
WITHOUT PAYMENT OF CALIFORNIA SALES TAX**

[12J-1A-1] EXHIBIT 52

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

DMA _____ AC _____
Auditor's Initials J.C. _____

Please complete this inquiry statement to indicate the disposition of certain non-taxed purchases you made from the seller listed below. Please fill out the form completely, check the appropriate boxes, and sign as your company's authorized representative. The form should be returned within 10 days.

NAME OF SELLER FROM WHOM YOU PURCHASED ITEMS WITHOUT SALES TAX ABC COMPANY				SELLER'S PERMIT NO. SR AC 12-121212
DATE	INVOICE NUMBER	PURCHASE ORDER NUMBER	AMOUNT	DESCRIPTION
09/11/1998	239	C0012345	30	HOLIDAY GREETING CARDS

Please check the appropriate boxes below. If none of these apply, please explain below.

- ☐ The above property was purchased for resale and was resold in the form of tangible personal property. It was not used for any purpose other than retention, demonstration, or display while being held for sale in the regular course of business.
- ☐ The above property was purchased for resale and is presently in resale inventory. It has not been used for any purpose other than retention, demonstration, or display while being held for sale in the regular course of business.
- ☐ The above property was purchased for leasing and tax measured by rental receipts has been paid directly to the Board with our sales tax returns.
- ☐ The above property was purchased for resale to the United States Government. In accordance with the title provisions of the U.S. Government supply contract, the U.S. Government took title to the property prior to any use of the property by us.
- ☒ The above property was purchased for our own use and not for resale, and
 - ☐ tax in the amount of _____ was paid directly to the Board with our sales tax return for the reporting period _____.
 - ☐ tax in the amount of _____ was added to the billing and remitted to the Seller.
 - ☒ the purchase is a taxable transaction and tax is applicable.

COMMENTS

NATURE OF BUSINESS Lighting Fixture Retailer		
PURCHASER'S SALES TAX PERMIT NUMBER SR AB 11-121212		PURCHASER'S NAME S.T. Vega
SIGNATURE S.T. Vega		TITLE Owner
DATE 8/12/1999	PHONE (310) 555-4545	CITY Torrance

The information provided above is subject to verification by the State Board of Equalization.

January 2000

AUDIT MANUAL

STATISTICAL SAMPLE EVALUATION

[12J-2]

EXHIBIT 53

STAT SAMPLE EVALUATION -
SALES FOR RESALE

SCHEDULE	12J-2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

	A	B	C	D	E	F	G	H
REF				UNITS	DOLLARS	SAMPLE DIFFERENCES	DIFFERENCES SQUARED	
1	POPULATION (N):			1,575	29,828	30.00	900.00	
2	SAMPLE (n):			350	6,007	60.00	3,600.00	
3	DIFFERENCES (d):			10	351	3.00	9.00	
4	<u>SUM OF DIFFERENCES SQUARED:</u>			<u>15,355</u>		37.00	1,369.00	
5						24.00	576.00	
6	MEAN:			\$1.00		23.00	529.00	
7						24.00	576.00	
8	STANDARD DEVIATION:			\$6.60		42.00	1,764.00	
9						44.00	1,936.00	
10	STANDARD ERROR:			\$0.31		64.00	4,096.00	
11						<u>351.00</u>	<u>15,355.00</u>	
12	INTERVAL AT 80% CL:			\$0.40				
13	INTERVAL AT 90% CL:			\$0.51				
14	INTERVAL AT 95% CL:			\$0.61				
15								
16	INTERVAL AS % OF MEAN:							
17	AT 80%			39.70%				
18	AT 90%			51.02%				
19	AT 95%			60.80%				
20								
21	AVE. POPULATION UNIT			19				
22								
23	AVE. SAMPLE UNIT			17				
24								
25	PERCENT OF ERROR:			5.8473%				
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

QUARTERLY SUMMARY OF LABOR SALES DISALLOWED

[12K]

EXHIBIT 54

DISALLOWED CLAIMED
LABOR SALES AUDIT PERIOD

SCHEDULE 12K
PERMIT SRAC12-121212
AUDITOR J. C. CONLON
DATE 09/09/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A	B	C	D	E	F	G	H
<12K-1>		<12K-1>		<12K-1>			
		QUESTIONED LABOR SALES	ADDITIONAL TAXABLE LABOR SALES	ADDITIONAL TRANSIT TAX MEASURE			
		Data					
Years	DATE	Sum of AMOUNT QUESTIONED	Sum of AMOUNT TAXABLE	Sum of DISTRICT MEASURE			
1998	Qtr1						
	Qtr2						
	Qtr3	588	588	510			
	Qtr4	449	449	400			
1999	Qtr1	223	223	18			
	Qtr2						
	Qtr3						
	Qtr4						
Grand Total		1,260	1,260	928			
			<12>				

Copy to Taxpayer
Date: _____

Note:

Schedules should be printed on legal size (8.5 x 14) or to conform to 0302.08. All exhibits in this chapter were prepared using the audit macro package in Excel. In order to efficiently utilize the district tax pivot table, district tax measure should be scheduled as shown in the example above.

**QUARTERLY DISTRICT ANALYSIS
OF LABOR SALES DISALLOWED**

DISALLOWED CLAIMED
LABOR SALES BY TRANSIT
TAXES

[12K-2] EXHIBIT 56

SCHEDULE	12K-2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/14/1999

REF

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A	B	C	D	E	F	G
<12K-1>						
		LACT	LATC	BART	SFPF	SFTA
		Data				
Years	DATE	Sum of LACT	Sum of LATC	Sum of BART	Sum of SFPF	Sum of SFTA
1998	Qtr1					
	Qtr2					
	Qtr3	484	484	26	26	26
	Qtr4	395	395	5	5	5
1999	Qtr1	18	18			
	Qtr2					
	Qtr3					
	Qtr4					
Grand Total		897	897	31	31	31
<A8.2>			<A8.1>			

Copy to Taxpayer
Date: _____

DISALLOWED CLAIMED INTERSTATE
COMMERCE SALES

SCHEDULE	12L
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F	G	H	I	J	K	L	M	N
---	---	---	---	---	---	---	---	---	---	---	---	---	---

REF	INVOICE DATE	INVOICE NUMBER	CUSTOMER	CUSTOMER ADDRESS	TAXABLE AMOUNT	COMMENTS
1	7/15/1998	378	Wayne Cheing	Tokyo, Japan	495	Merchandise shipped to San Diego warehouse via Common Carrier.
2	10/2/1998	1315	Same	Same	1,420	Same
3	2/8/1999	2417	Same	Same	835	Same
4	TOTAL				<u>2,750</u>	
5					<12>	

Comments

Disallowed interstate commerce sales were shipped to a San Diego warehouse as a collection point for other goods and were stored there until being shipped out of the country.

Note:

Not engaged in business in San Diego.

Copy to Taxpayer
Date: _____

DISALLOWED CLAIMED BAD DEBTS
AUDIT PERIOD

SCHEDULE	12M
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H	I	J	K	L	M
													(J+K)
REF	INVOICE DATE	INVOICE NUMBER	CUSTOMER	CUSTOMER ADDRESS			TOTAL WRITTEN OFF	MATERIALS	REPAIR LABOR	SALES TAX REIM- BURSEMENT	DISALLOWED BAD DEBTS		
1	07/06/1998	236	ABC Corporation	121 Harbor Blvd., Newport Beach			405	185	206	14	220		
2	07/24/1998	402	SAME	SAME			191	70	116	5	121		
3	08/06/1998	632	SAME	SAME			624	295	306	23	329		
4	08/15/1998	805	SAME	SAME			1,099	475	587	37	624		
5	08/17/1998	845	SAME	SAME			792	365	399	28	427		
6	09/24/1998	1376	SAME	SAME			328	149	167	12	179		
7	3Q-98						3,439	1,539	1,781	119	1,900		
8													
9	10/13/1998	1522	ABC Corporation	121 Harbor Blvd., Newport Beach			667	297	347	23	370		
10	10/31/1998	1777	SAME	SAME			741	342	372	27	399		
11	11/18/1998	1896	SAME	SAME			558	255	283	20	303		
12	12/24/1998	2598	SAME	SAME			534	240	275	19	294		
13	12/31/1998	2707	SAME	SAME			372	170	189	13	202		
14	4Q-98						2,872	1,304	1,466	102	1,568		
15	TOTAL						6,311	2,843	3,247	221	3,468		
16											<12>		

Comments

The taxpayer wrote-off all uncollectible receivables from ABC Corporation on 1/1/99. The entire receivables from ABC were erroneously claimed on the 1/99 return. Receivables from repair labor and sales tax reimbursement were disallowed since tax was never reported on these amounts.

Not engaged in business in Orange County.

Copy to Taxpayer
Date: _____

DISALLOWED CLAIMED BAD DEBTS

AUDIT WORKING PAPERS

[12M]

EXHIBIT 58

January 2000

SALES TO AIRCRAFT COMMON CARRIERS

[18] EXHIBIT 59

DISALLOWED CLAIMED LOCAL TAX ON SALES
TO AIRCRAFT COMMON CARRIERS

SCHEDULE	16
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

A	B	C	D	E	F		
	<S/J>	<16A>	(B-C)	<414>	(E-D)		
	SALES TO COMMON CARRIERS						
REF	PERIOD	RECORDED *	DISALLOWED	AUDITED	CLAIMED	DIFFERENCE	
1	3Q-98	1,400	839	561	1,400	839	
2	4Q-98	1,850	1,350	500	1,850	1,350	
3	1Q-99	1,252	295	957	1,252	295	
4	TOTAL	4,502	2,484	2,018	4,502	2,484	
5						<12>	
6						<A8.2>	

VERIFICATION COMMENTS**VERIFICATION**

Claimed sales to aircraft common carriers were examined on an actual basis for the audit period. Verification was made from the sales invoices and purchase orders. All sales were made in Los Angeles.

FINDINGS

- A) Sales to aircraft common carriers but not used or consumed directly and exclusively in the carriage of persons or property.
B) Sales to firms that are not aircraft common carriers.

* Recorded as a memo listing in the sales journal.

Instructional Note:

Amounts shown in column "C" were transcribed from the detailed supporting schedule 16A (not shown).

Copy to Taxpayer
Date: _____

AUDIT WORKING PAPERS

BART TAXABLE MEASURE ANALYSIS

[A8.1]

EXHIBIT 60

TAXABLE MEASURE
UNDERSTATED - BART

Case Id: 11111
Account Number: 12121212
Schedule Type: T
Juris Code: BART

SCHEDULE	A8.1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H	I	J
ITEM CODE		BART			1	2	4	5	8	10
NC CODE		1			0301	0104	0202	0201	0403	0601
REF		< 414-M >	(B+D)	(E..J)	<12D>	<12E>	<12G>	<12H>	<A8.1A>	<12K-2>
REF	Period	REPORTED TAXABLE MEASURE	AUDITED TAXABLE MEASURE	TOTAL TAXABLE DIFFERENCE	UNRECORDED TAXABLE SALES	UNREPORTED SALES TO EMPLOYEES	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE TAX	DISALLOWED CLAIMED RESALES	DISALLOWED CLAIMED LABOR
1	3Q-98	7,865	8,300	435		77	130	85	117	26
2	4Q-98	4,292	4,931	639		65	170	240	159	5
3	1Q-99	2,105	2,928	823	400	58	95	129	141	
4										
5	Total:	14,262	16,159	1,897	400	200	395	454	417	31
6				<414-A1>						
7										

Copy to Taxpayer
Date: _____

January 2000

DISALLOWED REALES SUBJECT TO BART TAX

[A8.1A]

EXHIBIT 61

DISALLOWED REALES SUBJECT TO BART TAX

SCHEDULE	A8.1A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

REF	A	B	C	D	E	F	G	H
		<12A>	<A8.1A-1>	(B x C)				
	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED SALES FOR REALE				
1	3Q-98	8,372	1.40%	117				
2	4Q-98	11,359	↓	159				
3	1Q-99	<u>10,097</u>		<u>141</u>				
4	TOTAL	<u><u>29,828</u></u>		<u><u>417</u></u>				
5				<A8.1>				
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

PERCENTAGE OF DISALLOWANCE OF REALES SUBJECT TO BART TAX

PERCENTAGE OF DISALLOWANCE OF
REALES SUBJECT TO BART TAX

[A8.1A-1] EXHIBIT 62

SCHEDULE	A8.1A-1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

REF	A	B	C	D	E	F	G	H
		<12J-4>	<12J-2>	(C / B)				
	PERIOD	TOTAL REALES TESTED	BART DISALLOWED PER TEST	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6.007	84.30	1.40%				
3				<A8.1A>				
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

AUDIT MANUAL

LACT TAXABLE MEASURE ANALYSIS

[A8.2] EXHIBIT 63

TAXABLE MEASURE
UNDERSTATED - LACT

Case Id: 11111
Account Number: 12121212
Schedule Type: T
Juris Code: LACT

SCHEDULE	A8.2
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H	I	J
ITEM CODE		LACT			2	4	5	9	10	13
NC CODE		5			0104	0202	0201	0403	0601	1013
REF		< 414-M >	(B+D)	(E..J)	<12E>	<12G>	<12H>	<A8.2A>	<12K-2>	<16>
REF	Period	REPORTED TAXABLE MEASURE	AUDITED TAXABLE MEASURE	TOTAL TAXABLE DIFFERENCE	UNREPORTED SALES TO EMPLOYEES	WITHDRAWALS FROM EX-TAX INVENTORY	PURCHASES SUBJECT TO USE TAX	DISALLOWED CLAIMED RESALES	DISALLOWED CLAIMED LABOR	DISALLOWED COMMON CARRIER
1	3Q-98	10,705	12,745	2,040	248	131	190	148	484	839
2	4Q-98	9,885	12,116	2,231	95	81	109	201	395	1,350
3	1Q-99	728	2,192	1,464	157	66	749	179	18	295
4										
5	Total:	21,318	27,053	5,735	500	278	1,048	528	897	2,484
6					<414A-1>					
7										

Copy to Taxpayer
Date: _____

DISALLOWED REALES SUBJECT TO LACT TAX

[A8.2A]

EXHIBIT 64

DISALLOWED REALES SUBJECT
TO LACT TAX

SCHEDULE	A8.2A
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<12A>	<A8.2A-1>	(B x C)				
REF	PERIOD	RECORDED RESALES	PERCENTAGE OF DISALLOWANCE	DISALLOWED SALES FOR REALE				
1	3Q-98	8,372	1.77%	148				
2	4Q-98	11,359	↓	201				
3	1Q-99	<u>10,097</u>	↓	<u>179</u>				
4	TOTAL	<u><u>29,828</u></u>		<u><u>528</u></u>				
5				<A8.2>				
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								

Copy to Taxpayer
Date: _____

PERCENTAGE OF DISALLOWANCE OF RESALES SUBJECT TO LACT TAX

PERCENTAGE OF DISALLOWANCE OF
RESALES SUBJECT TO LACT TAX

[A8.2A-1] EXHIBIT 65

SCHEDULE	A8.2A-1
PERMIT	12-121212
AUDITOR	J.C. Conlon
DATE	09/18/1999

	A	B	C	D	E	F	G	H
		<12A>	<12J-2>	(C / B)				
REF	PERIOD	RECORDED RESALES	LACT/LATC DISALLOWED PER TEST	PERCENTAGE OF DISALLOWANCE				
1								
2	TOTAL	6,007	106.35	1.77%				
3				<A8.2A>				
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								